

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

FINANCIAL REPORT WITH SUPPLEMENTAL INFORMATION

**CITY OF AUBURN HILLS, MICHIGAN
DECEMBER 31, 2006**

PREPARED BY
Finance Department

FINANCE DIRECTOR
Gary L. Barnes

INDEPENDENT AUDITORS
Plante & Moran, PLLC

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I. INTRODUCTORY SECTION

The Introductory Section Contains:

A. List of Principal Officials

B. Organization Chart

PRINCIPAL OFFICIALS

CITY OF AUBURN HILLS

CITY COUNCIL

Mari Harvey-Edwards, Mayor

Maureen E. Hammond
Robert Kittle
Henry V. Knight
James D. McDonald
Otis Newkirk
Daniel L. Pillsbury

CITY MANAGER

Michael W. Culpepper

ASSISTANT CITY MANAGER

Thomas A. Tanghe

CITY CLERK..... Linda F. Shannon

CITY ASSESSOR..... Victor J. Bennett

FINANCE DIRECTOR..... Gary L. Barnes

CITY TREASURER..... Victoria L. Valko

DIRECTOR OF SENIORS SERVICES..... Karen Adcock

DIRECTOR OF GOLF..... Gordon Marmion

COMMUNITY DEVELOPMENT DIRECTOR..... Brian McBroom

RECREATION DIRECTOR..... Brian Marzolf

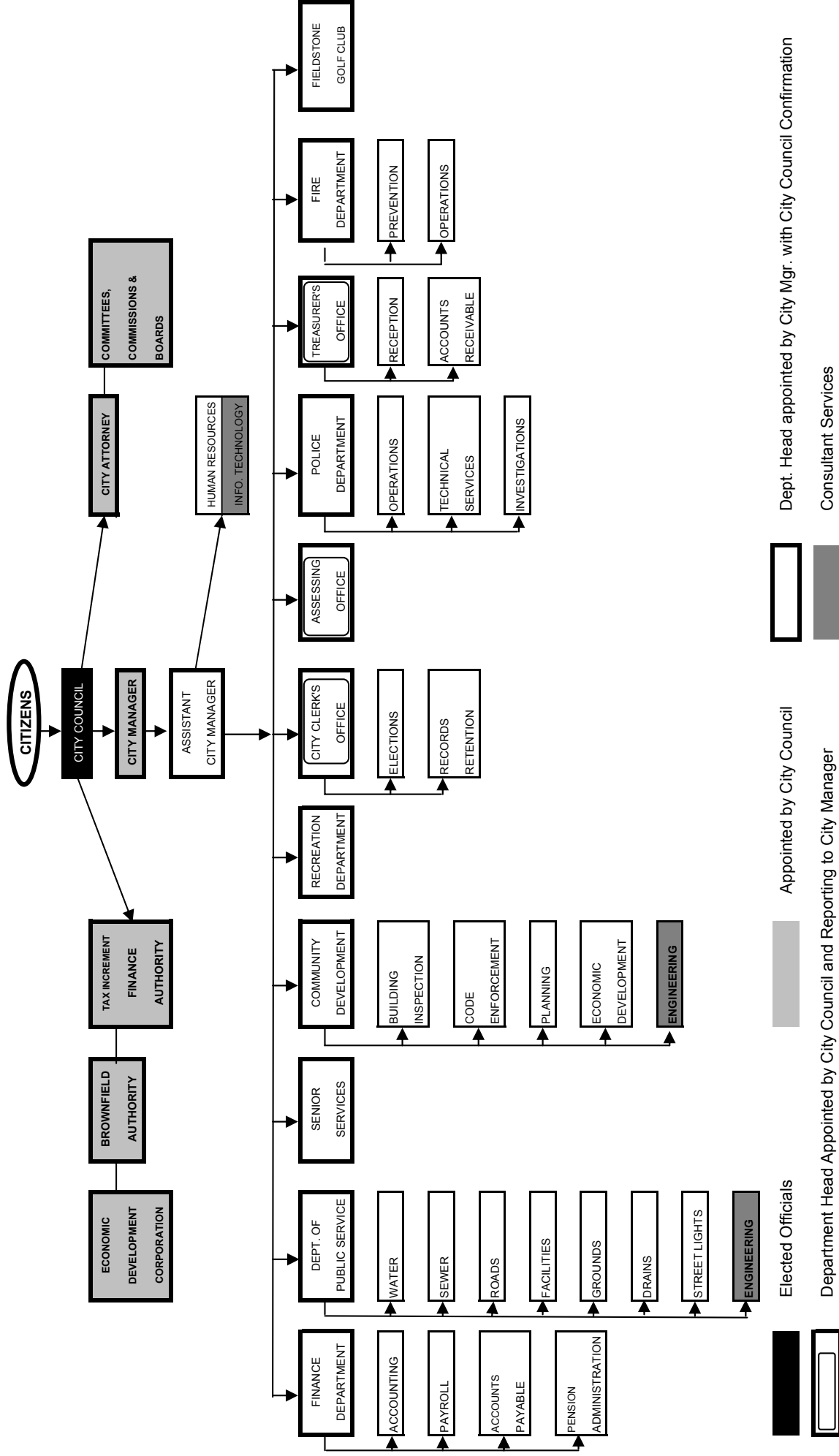
FIRE CHIEF..... Mark K. Walterhouse

POLICE CHIEF..... Doreen E. Olko

DIRECTOR OF PUBLIC SERVICE..... Ronald Melchert

CITY ATTORNEY..... William P. Hampton
Derk W. Beckerleg

City of Auburn Hills ORGANIZATIONAL CHART



II. FINANCIAL SECTION

The Financial Section Contains:

- A. Auditor's Report**
- B. Management's Discussion and Analysis**
- C. Basic Financial Statements**
- D. Notes to Financial Statements**
- E. Required Supplementary Information**
- F. Other Supplementary Information**



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Auburn Hills, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Auburn Hills, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Auburn Hills' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Auburn Hills as of December 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system schedules of funding progress and employer contributions, and the budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Auburn Hills' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

May 29, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF AUBURN HILLS

As the management of the City of Auburn Hills, we offer readers of the Comprehensive Annual Financial Report this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2006. We encourage readers to consider the following information in conjunction with the information presented in the City's financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City of Auburn Hills exceeded its liabilities at the close of the most recent fiscal year by \$177,066,875 (net assets). Of this amount, \$122,055,832 is the investment in capital assets (net of related debt), \$25,916,689 are assets restricted for specific purposes and functions, while the remaining \$29,094,354 represents unrestricted net assets which may be used to meet the demand for resources for the ongoing functions of the City.

The City's total net assets decreased during 2006 by \$1,405,380. The decrease in the net assets of the governmental activities was \$159,291 while the business-type activities experienced a decrease in total net assets of \$1,246,089. In the governmental activities, the decrease is primarily attributable to a one-time retroactive adjustment for \$4,698,021 to correct the net pension asset value. The decrease in net assets in the business activities is attributable to the service charge structure in the water and sewer funds being inadequate to cover on-going operating expenditures.

At December 31, 2006, the City of Auburn Hills' governmental funds reported combined fund balances of \$28,423,280, an increase of \$2,233,802 from the December 31, 2005 balance of \$26,189,478. The increase was attributable to a planned increase in General Fund's fund balance combined with excess revenues over expenditures in many of the other governmental funds. The unreserved fund balance at December 31, 2006 for the General Fund was \$5,773,947 or 45.2% of the total 2006 General Fund expenditures and transfers.

The total long-term debt of the City of Auburn Hills at December 31, 2006 was \$20,518,007 which represents a decrease of \$872,946 from the prior year balance of \$21,390,953. The reduction was attributable to principal payments made on long-term debt in 2006 in the amount of \$1,791,009 which was offset by a net increase in Tax Tribunal Cases in the amount of \$918,063. The increase in the Michigan Tax Tribunal estimate was due to a substantial increase in the number of new appeal cases. There were no new debt issuances by the City during 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Auburn Hills' basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decrease in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during 2006. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal period (e.g., multi-year special assessments and other receivables not collected within sixty days of the end of the fiscal year).

Both of the government-wide financial statements distinguish functions of the City of Auburn Hills that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Auburn Hills include legislative, management and planning, public safety, streets, highways & public improvements, community and economic development, and general support. The business-type activities of the City include the water and sewer departments and Fieldstone Golf Club, a municipal golf course.

The government-wide financial statements include, not only the City itself (known as the primary government), but also includes five legally separate component units for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found as Exhibits A-1 and A-2 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF AUBURN HILLS

Fund Financial Statements. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Auburn Hills, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and to comply with State and GASB (Government Accounting Standards Board) requirements for governmental accounting. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of available resources, as well as on balances of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term ability to meet financial commitments.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Auburn Hills maintains individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, four special revenue funds, and one debt service fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation entitled "Other Non-Major". Individual fund data for each of these non-major governmental funds is provided in the form of combining fund financial statements in this report.

The City of Auburn Hills adopts an annual appropriated budget for all governmental funds. A budgetary comparison statement has been provided for the major governmental funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found as Exhibit A-3 and Exhibit A-5 of this report.

Proprietary Funds. The City of Auburn Hills utilizes two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the Water Department, Sewer Department and Fieldstone Golf Club municipal golf course. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City utilizes internal service funds to account for its fleet of vehicles and equipment and for the accounting of the liability for unused, earned accrued sick and vacation hours. These functions have been allocated to governmental activities and business-type activities in the same proportion as the amount of services these functions provide to the activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer and Fieldstone Golf Club. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements beginning with Exhibit F-1.

The basic proprietary fund financial statements can be found as Exhibits A-7, A-8, and A-9 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of this fund are not available to support the City of Auburn Hills' programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary funds are the agency fund, the pension fund, and the retiree health care trust fund.

The fiduciary fund financial statements can be found as Exhibit A-10 and Exhibit A-11 of this report.

Component Units Presentation. The government-wide financial statements include not only the financial information for the City of Auburn Hills (the primary government), but also five legally separate component units for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government.

The basic component unit financial statements can be found as Exhibit A-12 and Exhibit A-13 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF AUBURN HILLS

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as Exhibit A-14 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Auburn Hills' progress in funding its obligation to provide pension benefits to its employees. In addition, budgetary comparison schedules are provided for all major governmental funds. This information can be found as Exhibit B-3, Exhibit B-4, Exhibit B-5 and Exhibit B-6 of this report.

Government-Wide Financial Analysis

As stated above, net assets over time may serve as a useful indicator of the City of Auburn Hills' financial position. Assets of the City of Auburn Hills exceeded liabilities by \$177,066,875 at December 31, 2006.

The net assets for the City of Auburn Hills are comprised of \$25,916,689 in assets which are restricted for specific programs and functions, \$122,055,832 investment in capital assets (land, streets, water and sewer mains, etc.) net of any related debt that is still outstanding to purchase or construct these assets, and \$29,094,354 in unrestricted assets. The City utilizes the capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt it should be noted that the resources needed to repay the outstanding debt issued to purchase or construct these assets (\$18,305,000), must be provided from other sources since the capital assets themselves cannot be sold and the proceeds used to liquidate the outstanding debt.

Statement of Net Assets-City of Auburn Hills

(in Millions)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and Other Assets.....	\$ 65.5	\$ 66.7	\$ 22.4	\$ 22.2	\$ 87.9	\$ 88.9
Capital Assets.....	71.7	70.6	67.0	68.4	138.7	139.0
Total Assets.....	137.2	137.3	89.4	90.6	226.6	227.9
Long-Term Liabilities.....	8.3	7.8	12.3	13.2	20.6	21.0
Other Liabilities.....	24.8	25.2	4.2	3.2	29.0	28.4
Total Liabilities.....	33.1	33.0	16.5	16.4	49.6	49.4
Net Assets:						
Invested in Capital Assets, Net of Related Debt.....	66.4	64.4	55.6	56.5	122.0	120.9
Restricted.....	25.9	22.1			25.9	22.1
Unrestricted.....	11.8	17.8	17.3	17.7	29.1	35.5
Total Net Assets.....	<u>\$ 104.1</u>	<u>\$ 104.3</u>	<u>\$ 72.9</u>	<u>\$ 74.2</u>	<u>\$ 177.0</u>	<u>\$ 178.5</u>

A portion of the City's net assets (14.6%) represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets (\$29,094,354) may be used to meet the government's obligations to citizens and creditors.

At the end of 2006, the City of Auburn Hills is able to report positive balances in both categories of net assets, for the City as a whole, and for the governmental and business-type activities. This was also the case at the end of 2004 and 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF AUBURN HILLS

The City's total net assets decreased \$1,405,380. This net decrease is primarily attributable to a one-time retroactive adjustment in the amount of \$4,698,021 to correct the net pension asset value. The decrease in the net assets of the governmental activities was \$159,291 while the business-type activities experienced a decrease in total net assets of \$1,246,089. The following is a summary of the changes in the City's net assets:

City of Auburn Hills' Change in Net Assets (in Millions)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
<u>Revenues</u>						
Program Revenues:						
Charges for Services.....	\$ 1.9	\$ 2.2	\$ 9.9	\$ 10.2	\$ 11.8	\$ 12.4
Operating Grants and Contributions....	1.4	1.4			1.4	1.4
Capital Grants and Contributions.....	0.2	0.1	0.8	1.4	1.0	1.5
General Revenues:						
Taxes.....	22.4	19.0	0.5	0.5	22.9	19.5
State Shared Revenue.....	1.6	1.7			1.6	1.7
Use of Money and Investments.....	3.0	1.9	0.8	0.5	3.8	2.4
Other Unrestricted Revenues.....	2.1	3.3	0.4	0.4	2.5	3.7
Total Revenues	32.6	29.6	12.4	13.0	45.0	42.6
<u>Expenses</u>						
Legislative.....	0.2	0.2			0.2	0.2
Management and Planning.....	3.0	2.4			3.0	2.4
Public Safety.....	13.2	11.1			13.2	11.1
Streets, Highways, & Improvements..	4.6	4.8			4.6	4.8
Community & Economic Dev.....	2.7	2.5			2.7	2.5
General Support.....	8.6	2.5			8.6	2.5
Interest on Long-Term Debt.....	0.2	0.4			0.2	0.4
Water.....			5.6	5.1	5.6	5.1
Sewer.....			5.7	4.7	5.7	4.7
Fieldstone Golf Club.....			2.6	2.6	2.6	2.6
Total Expenses	32.5	23.9	13.9	12.4	46.4	36.3
Increase in Net Assets before Transfers	0.1	5.7	(1.5)	0.6	(1.4)	6.3
Transfers.....	(0.3)	(0.3)	0.3	0.3	-	-
Increase (Decrease) in Net Assets	<u>\$ (0.2)</u>	<u>\$ 5.4</u>	<u>\$ (1.2)</u>	<u>\$ 0.9</u>	<u>\$ (1.4)</u>	<u>\$ 6.3</u>

Governmental Activities. Governmental activities decreased the net assets of the City of Auburn Hills by \$159,291. The key elements affecting this change are as follows:

- The City of Auburn Hills spent a total of \$3,594,167 on purchase or construction of governmental activities capital assets during 2006. In previous accounting methodologies, this amount would have been a use of current resources and a corresponding reduction in fund balance. GASB-34 provisions require that these assets be capitalized which results in no reduction in total assets. However, the costs of assets are allocated to the fiscal periods benefiting from their acquisition by recording depreciation expense. Recording depreciation expense reduced total assets by \$2,635,305.
- The City made total long-term debt principal repayments totaling \$1,006,629. Previously this would have been recorded as an expenditure reducing net assets.
- During 2006 interest income from investments increased by \$1,427,258 and tax revenues increased by \$3,439,301.
- Net assets decreased by \$4,69,021 as a result of a one-time retroactive adjustment to the net pension asset value.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF AUBURN HILLS

Business-Type Activities. Business-type activities decreased the City of Auburn Hills' net assets \$1,246,089. Key elements of this decrease are as follows:

- The water and sewer funds incurred operating losses in the amount of \$1,687,360 and \$1,666,441 respectively; however, non-operating revenues and capital contributions contributed \$1,200,852 and \$752,000 respectively to the net assets of these two funds. The operating losses resulted from service charges being insufficient to cover the direct and operating costs of providing these services.
- The Fieldstone Golf Club fund had an operating loss of \$107,628 and an additional \$320,760 in net non-operating income (expenses), capital contributions, and transfers-in which in total resulted in an increase in net assets of \$213,132.

Financial analysis of the Government's Funds

As noted earlier, the City of Auburn Hills' uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Auburn Hills' governmental funds is to provide information on near-term inflows, outflows, and balances of resources available. Such information is useful in assessing the City's financing requirements and ability to meet financial demands as they occur. In particular, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Auburn Hills' governmental funds reported combined ending fund balances of \$28,423,280, an increase of \$2,233,802 from the 2005 balance of \$26,189,478. This is an increase of 8.5%. Except for \$16,285, the entire fund constitutes an unreserved fund balance which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City of Auburn Hills. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$5,773,947. The unreserved fund balance represents 45.2% of total general fund expenditures.

After comparing the general fund balance to the balance as of December 31, 2005, the fund balance of the City of Auburn Hills' general fund increased by \$1,487,555. The key factors in this increase are as follows:

- The increase is primarily attributable to an increase in fund revenues. General fund revenues in 2006 increased by \$1,367,864 or 10.6% over the prior year. Revenue decreases occurred in charges for services (\$177,501), licenses and permits (\$84,136), and state sources (\$87,598). However, these decreases were more than offset by the interest revenue from investments in 2006 which was higher by \$550,920. In addition, tax revenues and the tax collection fee increased by \$277,673. With respect to expenses, excluding fund transfers, the total increase was \$484,953 or 5.3%.

The fund balances in all other City governmental funds increased by \$746,247, from \$21,886,801 to \$22,633,048, an increase of 3.4%. In revenues, the police fund had an increase of \$1,908,992 or 16.2% over the prior year while the fire fund had an increase of \$441,429 or 13%. Revenues in other governmental funds were consistent with the prior year with the exception of the Wayne Oakland Disposal fund where revenues decreased \$1,479,067 from 2005. Subject to approval by the State of Michigan Department of Environmental Quality, a new proposed amendment with Wayne Disposal will result in additional revenues over a several year period beginning in late 2007.

Expenses in other governmental funds increased by \$4,989,017 in 2006. All funds had modest increases or decreases in expenses from the prior year with the exception of the retiree health care fund and street improvement funds. In 2006 the City established a Retiree Health Care Trust (RHCT) which resulted in the transfer of approximately \$3.4 million from the retiree health care fund. The trust was established in order to better position the City to meet its long-term obligations with respect to retiree health care benefits. Several significant street improvement projects resulted in capital outlays increasing by \$2,687,861 in the street improvement fund in 2006.

Proprietary Funds. The City of Auburn Hill's proprietary funds provide the same type of information found in the government-wide financial statements, but in greater detail.

Unrestricted net assets in the proprietary funds decreased a total of \$464,769.

- The water and sewer funds incurred operating losses in the amount of \$1,687,360 and \$1,666,441 respectively. The operating losses are the result of service charges for water and sewer not covering the direct operating costs of providing these services. Fieldstone Golf Club had an operating loss of \$107,628.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF AUBURN HILLS

General Fund Budgetary Highlights

- General fund departments' budgets that exceeded their total expense budgets for 2006 combined for a total over budget amount of \$254,582. In total the general fund expenditures were under budget by \$303,740 in 2006.

Capital Asset and Debt Administration

Capital Assets. The City of Auburn Hills' investment in capital assets for its governmental and business type activities as of December 31, 2006, amounts to \$122,055,832 (net of accumulated depreciation and related debt). This investment in capital assets includes water and sewer mains, office furniture and equipment, machinery and equipment, vehicles, buildings and improvements, roads, and storm drains.

Additional information regarding the City's capital assets can be found in Note E in Exhibit A-14 of this report.

Long-Term Debt. At the end of the current fiscal year, the City of Auburn Hills had total debt outstanding of \$20,518,007. The issues included \$625,000 of general obligation limited tax bond issues and \$2,213,007 of Michigan Tax Tribunal property tax appeals.

Total indebtedness of the City decreased \$872,946 from \$21,390,953 to \$20,518,007. This decrease resulted from principal payments of \$1,791,009 on outstanding bonds and other installment loans and a net increase in the Michigan Tax Tribunals tax appeals of \$918,063. There was no new debt issued by the City in 2006.

The City has an A+ and A rating from Standard & Poor's Corporation and an A1 and A2 rating from Moody's Investors Service on general obligations unlimited tax bond issues and on issues with tax limitations, respectively.

The City debt limit, as defined by statute, is ten percent (10%) of equalized property values or \$286,937,403. Total City long-term debt was \$20,518,007 at December 31, 2006. Of this amount, \$13,680,000 is subject to the debt limit. Currently the City is utilizing only 4.8% of its total debt capacity per state statute.

Additional information on the City of Auburn Hills' long-term debt can be found in Note F of Exhibit A-14 of this report.

Economic Factors and Next Year's Budgets and Rates

The government expects to see reduced funding from the State of Michigan due to continuing budget problems at the State level.

The City continues to experience increases in the cost of pension contributions and medical insurance rates due to a higher number of participants and the increasing costs of medical care respectively. These factors were considered in the 2007 budget process as well as in negotiations with union bargaining groups of the City.

The approved 2007 City of Auburn Hills' budget projected the general fund balance to decrease by \$191,479 during 2007.

Request for Information

This financial report is designed to provide a general overview of the City of Auburn Hills' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Auburn Hills, 1827 N. Squirrel Rd., Auburn Hills, Michigan 48326.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2006

CITY OF AUBURN HILLS

Exhibit A-1

	Governmental Activities	Business-Type Activities	Total	Component Units
<u>ASSETS</u>				
Cash and investments (Notes C and M).....	\$ 33,512,238	\$ 19,089,084	\$ 52,601,322	\$ 14,236,444
Receivables:				
Due from other governmental units.....	942,679		942,679	
Taxes.....	21,043,968		21,043,968	4,692,880
Accounts.....	1,620,995	1,479,316	3,100,311	
Special Assessments.....	4,614,566	8,886	4,623,452	
Accrued interest.....	33,531	30,324	63,855	7,867
Prepayments.....	16,285		16,285	
Inventories.....		106,350	106,350	
Capital assets (net of accumulated depreciation Notes E and M)				
Depreciable assets:				
Water and sewer mains.....		49,884,802	49,884,802	
Office furniture & equipment.....	47,747		47,747	193,668
Machinery & equipment.....	1,061,112	279,171	1,340,283	
Vehicles.....	863,599	248,983	1,112,582	
Buildings & improvements.....	11,341,767	8,178,732	19,520,499	18,586,734
Roads.....	48,074,871		48,074,871	17,410,704
Storm drains.....	5,249,020		5,249,020	
Non-depreciable assets:				
Land & improvements.....	5,016,650	8,397,496	13,414,146	8,307,511
Construction in progress.....				6,720
Unamortized discount & issuance costs.....		1,716,882	1,716,882	
Pension Asset (Note I).....	3,801,560		3,801,560	
TOTAL ASSETS	137,240,588	89,420,026	226,660,614	63,442,528
<u>LIABILITIES</u>				
Accounts Payable.....	973,355	3,110,206	4,083,561	74,341
Accrued payroll and other liabilities.....	321,430		321,430	
Retainages payable.....	34,693		34,693	16,432
Due to other governmental units.....				4,368,583
Deposits payable.....	1,995,838		1,995,838	
Unearned revenue (Note D).....	20,979,893		20,979,893	4,694,480
Accrued interest payable.....	6,058		6,058	
Other liabilities.....		186,824	186,824	
Non-current liabilities:				
Current portion of long-term debt (Note F)....	525,000	885,000	1,410,000	
Long-term debt (net of current portion) (Note F and Note M).....	6,938,007	12,170,000	19,108,007	2,059,646
Compensated Absences.....	1,353,459	113,976	1,467,435	
TOTAL LIABILITIES	33,127,733	16,466,006	49,593,739	11,213,482
<u>NET ASSETS</u>				
Invested in cap. assets (net of related debt).....	66,404,766	55,651,066	122,055,832	44,505,337
Restricted assets (Note B)				
Police Fund.....	17,966,582		17,966,582	
Brown Road Special Assessment Fund.....	4,802,664		4,802,664	
Other funds.....	3,147,443		3,147,443	7,723,709
Unrestricted.....	11,791,400	17,302,954	29,094,354	
TOTAL NET ASSETS	\$ 104,112,855	\$ 72,954,020	\$ 177,066,875	\$ 52,229,046

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit A-2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
Legislative.....	\$ 250,420	\$	\$	\$
Management and planning.....	2,984,528	32,310	33,850	
Public safety.....	13,204,779	755,015	19,105	190,902
Streets, highways, & public improvements.....	4,572,851		1,289,023	
Community and economic development.....	2,759,127	1,091,650	95,990	
General support.....	8,569,879			
Interest on long-term debt.....	242,836			
Total Governmental Activities	32,584,420	1,878,975	1,437,968	190,902
Business-type activities:				
Water.....	5,644,221	4,052,825		424,730
Sewer.....	5,712,383	4,045,942		327,270
Fieldstone Golf Club.....	2,594,538	1,849,321		
Total Business-Type Activities	13,951,142	9,948,088	0	752,000
Total Primary Government	\$ 46,535,562	\$ 11,827,063	\$ 1,437,968	\$ 942,902
Component units:				
TIFA 85-A.....	\$ 751,586			
TIFA 85-B.....	196,888			
TIFA 86-D.....	580,576			
Brownfield Authority.....	354,940			
Economic Development Corporation.....	789			
Total Component Units	\$ 1,884,779	\$ 0	\$ 0	\$ 0

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement.

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>Component Units</u>
	\$ (250,420)		\$ (250,420)	
	(2,918,368)		(2,918,368)	
	(12,239,757)		(12,239,757)	
	(3,283,828)		(3,283,828)	
	(1,571,487)		(1,571,487)	
	(8,569,879)		(8,569,879)	
	<u>(242,836)</u>		<u>(242,836)</u>	
	<u>(29,076,575)</u>		<u>(29,076,575)</u>	
		\$ (1,166,666)	(1,166,666)	
		(1,339,171)	(1,339,171)	
		<u>(745,217)</u>	<u>(745,217)</u>	
	<u>0</u>	<u>(3,251,054)</u>	<u>(3,251,054)</u>	
	<u>(29,076,575)</u>	<u>(3,251,054)</u>	<u>(32,327,629)</u>	
				\$ (751,586)
				(196,888)
				(580,576)
				(354,940)
				<u>(789)</u>
	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,884,779)</u>
General Revenues:				
Taxes.....	22,453,250	501,001	22,954,251	6,624,279
State shared revenues.....	1,580,493		1,580,493	
Use of money and investments.....	3,038,694	853,582	3,892,276	552,018
Other general revenues:				
Franchise fees.....	181,367		181,367	
Cellular lease.....	51,877		51,877	
Other revenues.....	1,895,943	366,042	2,261,985	
Transfers.....	<u>(284,340)</u>	<u>284,340</u>	<u>0</u>	
Total General Revenues and Transfers	<u>28,917,284</u>	<u>2,004,965</u>	<u>30,922,249</u>	<u>7,176,297</u>
Change in net assets.....	(159,291)	(1,246,089)	(1,405,380)	5,291,518
Net assets-beginning Balance.....	<u>104,272,146</u>	<u>74,200,109</u>	<u>178,472,255</u>	<u>46,937,528</u>
Net Assets-ending.....	<u><u>\$ 104,112,855</u></u>	<u><u>\$ 72,954,020</u></u>	<u><u>\$ 177,066,875</u></u>	<u><u>\$ 52,229,046</u></u>

BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2006

CITY OF AUBURN HILLS

Exhibit A-3

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Street Improvement</u>
<u>ASSETS</u>				
Cash and investments (Note C).....	\$ 7,328,610	\$ 656,431	\$ 273,553	\$ 162,898
Receivables:				
Due from other governmental units.....	529,678	136,741	43,214	
Taxes.....	5,396,566			
Due from other funds (Note G).....				
Accrued Interest.....	7,825			
Accounts.....	1,392,278			
Special Assessments.....	22,566			
Prepays.....	16,285			
TOTAL ASSETS	<u>\$ 14,693,808</u>	<u>\$ 793,172</u>	<u>\$ 316,767</u>	<u>\$ 162,898</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable.....	\$ 402,489	\$ 158,031	\$ 19,085	\$ 138,782
Accrued payroll and other liabilities.....	80,804	2,778	3,688	
Retainages Payable.....			4,650	30,043
Due to other governmental units.....				
Due to other funds (Note G).....	477,418	36,002	18,046	
Deposits payable.....	1,188,693	403,505	273,147	
Deferred revenue (Note D).....	6,754,172			
TOTAL LIABILITIES	8,903,576	600,316	318,616	168,825
<u>FUND BALANCES</u>				
Fund balances-Reserved for:				
Prepayments.....	16,285			
Fund balances-Unreserved:				
Undesignated (deficit):				
Reported in general fund.....	5,773,947			
Reported in special revenue funds.....		192,856	(1,849)	
Reported in debt service funds.....				
Reported in capital project funds.....				(5,927)
TOTAL FUND BALANCES	<u>5,790,232</u>	<u>192,856</u>	<u>(1,849)</u>	<u>(5,927)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 14,693,808</u>	<u>\$ 793,172</u>	<u>\$ 316,767</u>	<u>\$ 162,898</u>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

<u>Police</u>	<u>Fire</u>	<u>Brown Road Debt - Special Assessment</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
\$ 18,727,518	\$ 2,601,673	\$ 210,664	\$ 2,171,723	\$ 32,133,070
			233,046	942,679
12,091,333	3,556,069			21,043,968
			28,230	28,230
25,706				33,531
150,866	200		76,624	1,619,968
		4,592,000		4,614,566
				16,285
<u>\$ 30,995,423</u>	<u>\$ 6,157,942</u>	<u>\$ 4,802,664</u>	<u>\$ 2,509,623</u>	<u>\$ 60,432,297</u>
\$ 56,538	\$ 26,597		\$ 137,689	\$ 939,211
163,170	66,196		1,148	317,784
				34,693
632,639	177,729		12,750	1,354,584
	3,599		126,894	1,995,838
12,176,494	3,556,069	\$ 4,592,000	288,172	27,366,907
13,028,841	3,830,190	4,592,000	566,653	32,009,017
				16,285
				5,773,947
17,966,582	2,327,752		1,647,784	22,133,125
		210,664	115,970	326,634
			179,216	173,289
<u>17,966,582</u>	<u>2,327,752</u>	<u>210,664</u>	<u>1,942,970</u>	<u>28,423,280</u>
<u>\$ 30,995,423</u>	<u>\$ 6,157,942</u>	<u>\$ 4,802,664</u>	<u>\$ 2,509,623</u>	<u>\$ 60,432,297</u>

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit A-4

Total fund balances of governmental funds (See Exhibit A-3) \$ 28,423,280

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Office furniture & equipment.....	\$ 47,747	
Machinery & equipment.....	1,061,112	
Vehicles.....	863,599	
Buildings & improvements.....	11,341,767	
Land & improvements.....	5,016,650	
Streets.....	48,074,871	
Storm drains.....	<u>5,249,020</u>	71,654,766

Allocation of Internal Service Funds to Governmental activities:

Fleet Management (exclusive of Fleet Management capital assets).....	1,315,300
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Long-term liabilities are not due and payable in the current period and
therefore are not reported in the funds.

Governmental obligation loans payable.....	\$ (5,250,000)	
Accrued interest payable.....	(6,058)	
Tax tribunal cases.....	<u>(2,213,007)</u>	(7,469,065)

Other long-term assets are not available to pay for current period
expenditures and therefore are not reported in the funds.

Special assessments receivable.....	\$ 4,634,000	
Accounts receivable - abatement recoveries	1,351,337	
Police and Fire Departments receivables for fines and services	397,404	
Grant receivables.....	<u>4,273</u>	6,387,014

Record Pension Asset.....	<u>3,801,560</u>
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Net assets of governmental activities \$ 104,112,855

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCES-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit A-5

	<u>General</u>	<u>Major Streets</u>	<u>Street Improvement</u>
<u>REVENUE</u>			
Property taxes.....	\$ 5,290,288		
Special assessments.....			
Licenses and permits.....	523,815		
Charges for services.....	420,347		
Fines and forfeitures.....			
Federal sources.....			
State sources.....	1,584,151	\$ 945,302	\$
Use of money and property.....	1,999,444	22,538	66,948
Administrative and interfund charges.....	3,689,889		
Other.....	752,941	4,050	
TOTAL REVENUE	14,260,875	971,890	66,948
<u>EXPENDITURES</u>			
Current operations:			
Legislative.....	238,503		
Management and planning.....	3,708,454		
Public safety.....			
Streets, highways, & public improvements.....	368,800	1,134,474	26,563
Community and economic development.....	2,387,125		
General support.....	2,779,996		
Capital outlay.....	221,154		3,115,833
Debt service:			
Principal payments.....			
Interest.....			
TOTAL EXPENDITURES	9,704,032	1,134,474	3,142,396
REVENUE OVER (UNDER) EXPENDITURES	4,556,843	(162,584)	(3,075,448)
<u>OTHER FINANCING SOURCES (USES)</u>			
General fund transfers.....	(3,069,288)	550,000	1,250,000
Transfers out to other funds.....		(65,052)	
TOTAL OTHER FINANCING SOURCES (USES)	(3,069,288)	484,948	1,250,000
REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,487,555	322,364	(1,825,448)
Fund balance at beginning of year.....	4,302,677	(129,508)	1,819,521
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ 5,790,232	\$ 192,856	\$ (5,927)

See Exhibit A-14, The Notes to Financial Statements are

<u>Local Streets</u>	<u>Police</u>	<u>Fire</u>	<u>Brown Road Debt - Special Assessment</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
	\$ 11,862,185	\$ 3,488,808		\$ 460,632	\$ 21,101,913
			\$ 420,000		420,000
	20,750				544,565
	520,846	234,173		1,012,273	2,187,639
	220,999				220,999
	190,902			191,112	382,014
\$ 288,181	62,901			65,374	2,945,909
16,029	828,258	104,316	308,322	121,210	3,467,065
					3,689,889
1,050	20,820	18,258		227,713	1,024,832
305,260	13,727,661	3,845,555	728,322	2,078,314	35,984,825
				16,297	254,800
				818,750	4,527,204
	9,801,171	3,367,344		1,973,772	15,142,287
821,097			275	405,298	2,756,507
				440,848	2,827,973
				274,099	3,054,095
	215,142	28,260		13,778	3,594,167
			450,000	545,000	995,000
			262,550	52,100	314,650
821,097	10,016,313	3,395,604	712,825	4,539,942	33,466,683
(515,837)	3,711,348	449,951	15,497	(2,461,628)	2,518,142
600,000				450,000	(219,288)
		0		0	(65,052)
600,000	0	0	0	450,000	(284,340)
84,163	3,711,348	449,951	15,497	(2,011,628)	2,233,802
(86,012)	14,255,234	1,877,801	195,167	3,954,598	26,189,478
\$ (1,849)	\$ 17,966,582	\$ 2,327,752	\$ 210,664	\$ 1,942,970	\$ 28,423,280

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006
CITY OF AUBURN HILLS**

Exhibit A-6

Net change in fund balance-total governmental funds (See Exhibit A-5) \$ 2,233,802

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement
of Activities the cost of assets is allocated over their useful lives and reported as
depreciation expense. Details of the adjustments are:

Capital outlay (less Internal Service additions of \$505,043)..... 3,594,170

Depreciation expense (less Internal Service depreciation expense of \$439,437)..... (2,635,305)

The payment of principal on long-term debt consumes current financial resources of the
of the governmental funds. However, on the Statement of Net Assets, repayment of
principal is recorded as a reduction to long-term debt payable and does not have
any effect on net assets.

Long-term debt principal repayment..... 1,006,629

Change in interest expense on debt..... 71,814

The activities of the internal service funds are considered part of the governmental
activities on the Government-Wide Statements but are not reported in the
governmental funds.....

256,066

Increase in liability for the MTT Appeals..... (918,062)

Revenues in the statement of activities that do not provide current financial resources (deferred
revenues) are not reported as revenues in the funds..... 1,023,697

Pension asset change reported in the Statement of Activates does not provide current
financial resources and therefore is not reported as in the governmental funds..... (4,792,102)

Change in net assets of governmental activities \$ (159,291)

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

STATEMENT OF NET ASSETS -- PROPRIETARY FUNDS
DECEMBER 31, 2006

CITY OF AUBURN HILLS

Exhibit A-7

		<u>Enterprise Funds</u>	
		<u>Water</u>	<u>Sewer</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and investments (Note C).....			\$ 18,572,226
Receivables:			
Accounts.....	\$	680,206	800,139
Special assessments.....		6,238	2,648
Due from other funds (Note G).....		563,816	1,700,170
Accrued interest.....		0	30,324
Inventories.....		71,445	
TOTAL CURRENT ASSETS		1,321,705	21,105,507
<u>LAND, BUILDINGS AND EQUIPMENT</u>			
Water and sewer mains.....		29,331,295	31,049,793
Land and improvements.....			
Facilities.....		2,227,866	
Vehicles.....			
Other equipment.....		2,222,308	95,879
TOTAL CAPITAL ASSETS		33,781,469	31,145,672
Less: Allowance for depreciation.....		5,869,284	6,799,361
TOTAL CAPITAL ASSETS NET OF DEPRECIATION		27,912,185	24,346,311
Other non-current assets - unamortized discount & bond issuance costs.....			
TOTAL FOR NON-CURRENT ASSETS		27,912,185	24,346,311
TOTAL ASSETS		29,233,890	45,451,818
<u>CURRENT LIABILITIES</u>			
Current portion of long-term debt.....			
Accounts payable.....		1,968,146	987,127
Due to other funds (Note G).....		64,176	23,866
Other liabilities.....		79,311	2,266
TOTAL CURRENT LIABILITIES		2,111,633	1,013,259
LONG TERM DEBT-Net of current portion.....			
TOTAL LIABILITIES		2,111,633	1,013,259
<u>NET ASSETS:</u>			
Invested in capital assets net of related debt.....		27,912,185	24,346,311
Unrestricted.....		(789,928)	20,092,248
TOTAL NET ASSETS	\$	27,122,257	\$ 44,438,559

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

Enterprise Funds			
	Fieldstone Golf Club	Total	Internal Service
	\$	\$ 18,572,226	\$ 1,896,026
		1,480,345	
		8,886	
		2,263,986	1,467,435
		30,324	
	34,905	106,350	
	34,905	22,462,117	3,363,461
		60,381,088	
	8,397,496	8,397,496	
	7,880,086	10,107,952	
	22,510	2,340,697	3,669,080
			919,294
	16,300,092	81,227,233	4,588,374
	1,890,453	14,559,098	3,410,639
	14,409,639	66,668,135	1,177,735
	1,716,882	1,716,882	
	16,126,521	68,385,017	
	16,161,426	90,847,134	4,541,196
	885,000	885,000	
	142,137	3,097,410	46,941
	2,281,176	2,369,218	35,850
	103,883	185,460	1,472,448
	3,412,196	6,537,088	1,555,239
	12,170,000	12,170,000	
	15,582,196	18,707,088	1,555,239
	3,071,521	55,330,017	1,177,735
	(2,492,291)	16,810,029	1,808,222
	\$ 579,230	72,140,046	\$ 2,985,957

Amounts reported for business-type activities in the statement of net assets are different because:

Allocation of internal service fund (Fleet Management fund) to business-type activities.....	813,974
Net assets of business-type activities	\$ 72,954,020

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS -- PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit A-8

	Enterprise Funds	
	<u>Water</u>	<u>Sewer</u>
<u>OPERATING REVENUE</u>		
Water charges.....	\$ 3,663,569	
Sewer charges.....		\$ 3,870,818
Hydrant and equipment rental.....	94,500	
Water connection charges.....	64,637	
Vehicle rental fees.....		
Green fees.....		
Golf cart rentals.....		
Practice range fees.....		
Merchandise sales.....		
Food & beverage sales.....		
Other operating income.....	230,119	175,124
TOTAL OPERATING REVENUE	4,052,825	4,045,942
<u>OPERATING EXPENSES</u>		
Salaries and wages.....	556,945	170,792
Fringe benefits.....	347,487	92,245
Supplies.....	107,530	18,413
Contracted services.....	395,897	223,554
Other operating expenses.....	370,988	396,626
Administrative charges.....	527,706	380,616
Cost of water and sewage disposal.....	2,402,809	3,641,506
Depreciation and amortization.....	1,030,823	788,631
TOTAL OPERATING EXPENSES	5,740,185	5,712,383
TOTAL OPERATING INCOME (LOSS)	(1,687,360)	(1,666,441)
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest earned.....	9,818	824,992
Interest expense.....		
Property taxes.....		
Other income.....	182,196	183,846
TOTAL NONOPERATING REVENUE (EXPENSE)	192,014	1,008,838
INCOME (LOSS) BEFORE OPERATING TRANSFERS & CAPITAL CONTRIBUTIONS	(1,495,346)	(657,603)
<u>CAPITAL CONTRIBUTIONS</u>		
Capital and lateral charges.....	63,680	302,435
Developer contributions.....	361,050	24,835
TOTAL CAPITAL CONTRIBUTIONS	424,730	327,270
LOSS BEFORE OPERATING TRANSFERS	(1,070,616)	(330,333)
<u>OPERATING TRANSFERS</u>		
Transfers-in/(out).....	32,526	(186,762)
TOTAL OPERATING TRANSFERS	32,526	(186,762)
CHANGE IN NET ASSETS	(1,038,090)	(517,095)
Net assets-beginning of year.....	28,160,347	44,955,654
NET ASSETS AT END OF YEAR	\$ 27,122,257	\$ 44,438,559

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

Enterprise Funds

	<u>Fieldstone Golf Club</u>	<u>Total</u>	<u>Internal Service</u>
		\$ 3,663,569	
		3,870,818	
		94,500	\$ 1,221,136
		64,637	
		0	671,070
\$ 1,244,407	1,244,407		
7,942	7,942		
64,359	64,359		
80,150	80,150		
437,010	437,010		
15,453	420,696		94,260
1,849,321	9,948,088		1,986,466
	346,354	1,074,091	301,067
	133,418	573,150	161,743
	203,166	329,109	407,942
	584,402	1,203,853	85,068
	255,608	1,023,222	324,414
		908,322	
		6,044,315	
	434,001	2,253,455	604,120
	1,956,949	13,409,517	1,884,354
	(107,628)	(3,461,429)	102,112
	18,772	853,582	86,866
	(637,589)	(637,589)	
	501,001	501,001	
		366,042	163,056
	(117,816)	1,083,036	249,922
	(225,444)	(2,378,393)	352,034
		366,115	
		385,885	
	0	752,000	0
	(225,444)	(1,626,393)	352,034
	438,576	284,340	
	438,576	284,340	0
	213,132	(1,342,053)	352,034
	366,099		2,633,923
\$ 579,231			\$ 2,985,957

Amounts reported for business-type activities in the statement of activities are different because the business-type activities of the internal service fund have been added to these activities.....

95,964

Change in net assets of business-type activities \$ (1,246,089)

STATEMENT OF CASH FLOWS -- PROPRIETARY FUNDS
DECEMBER 31, 2006

CITY OF AUBURN HILLS

Exhibit A-9

	<u>Enterprise Funds</u>	
	<u>Water</u>	<u>Sewer</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers.....	\$ 3,611,919	\$ 3,803,854
Cash payments for goods and services.....	(2,353,507)	(3,772,435)
Cash payments to employees.....	(855,723)	(268,510)
Other operating expenses.....	(896,619)	(777,242)
Other operating income.....	389,256	175,124
NET CASH PROVIDED BY OPERATING ACTIVITIES	(104,674)	(839,209)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Operating transfers in	216,926	(2,362)
Other nonoperating receipts.....	358,846	24,281
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	575,772	21,919
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Principal paid on long term debt.....		
Interest paid on long term debt.....		
Capital and lateral charges.....	63,680	302,435
Purchase of capital assets.....	(559,833)	(31,956)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(496,153)	270,479
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received on investments.....	25,055	808,644
NET CASH PROVIDED BY INVESTING ACTIVITIES	25,055	808,644
Net increase (decrease) in cash and cash equivalents.....	0	261,833
Cash and cash equivalents-Beginning of year.....	0	18,310,393
Cash and cash equivalents-end of year.....	<u>\$ 0</u>	<u>\$ 18,572,226</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss).....	\$ (1,687,360)	\$ (1,666,441)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Depreciation and amortization expense.....	1,030,823	788,631
Decrease (increase) in accounts receivable.....	(53,791)	(69,105)
Decrease (increase) in special assessments receivable.....	2,141	2,141
Decrease (increase) in inventory.....	2,075	
Increase (decrease) in accounts payable.....	552,729	111,038
Increase (decrease) in due to other funds.....	(12,571)	(2,245)
Increase (decrease) in accrued payroll and other liabilities.....	61,280	(3,228)
Total Adjustments.....	1,582,686	827,232
Net cash provided by (used in) operating activities.....	<u>\$ (104,674)</u>	<u>\$ (839,209)</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended December 31, 2006, developers contributed \$385,885 of mains to the City, of which \$361,050 were water mains while the remaining \$24,835 were sewer mains.

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

Fieldstone Golf Club	Total	Internal Service
\$ 1,847,377 (677,950) (476,132) (256,090) 1,941 439,146	\$ 9,263,150 (6,803,892) (1,600,365) (1,929,951) 566,321 (504,737)	\$ 1,892,206 (570,769) (364,965) (324,414) 632,058
438,576 501,000 939,576	653,140 884,127 1,537,267	163,056 163,056
(765,000) (642,963)	(765,000) (642,963) 366,115 (591,789) (1,633,637)	(688,443) (688,443)
18,771 18,771	852,470 852,470	86,866 86,866
(10,470) 10,470	251,363 18,320,863	193,537 1,702,489
\$ 0	\$ 18,572,226	\$ 1,896,026
\$ (107,628)	(3,461,429)	74,001
434,001 (484) 109,618 1,264 2,375 546,774 439,146	2,253,455 (122,896) 4,282 1,591 773,385 (13,552) 60,427 2,956,692 (504,737)	642,788 (250,990) 2,510 34,938 429,246 503,247

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006

CITY OF AUBURN HILLS

Exhibit A-10

	<u>Agency Fund</u>	<u>Retiree Health Care Trust Fund</u>	<u>Pension Trust Fund</u>
<u>ASSETS</u>			
Cash (Note C).....	\$ 11,564,024	\$ 1,428	\$ 122,163
Receivables:			
Accrued interest and dividends.....			1,451
Investments at fair value:			
Mutual funds.....		3,155,568	26,691,296
TOTAL ASSETS	<u>11,564,024</u>	<u>3,156,996</u>	<u>26,814,910</u>
<u>LIABILITIES</u>			
Undistributed tax collections.....	<u>11,564,024</u>		
TOTAL LIABILITIES	<u>11,564,024</u>	<u>0</u>	<u>0</u>
<u>NET ASSETS</u>			
Held in trust for pension benefits and other purposes.....	<u>\$ 0</u>	<u>\$ 3,156,996</u>	<u>\$ 26,814,910</u>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit A-11

	Retiree Health Care Trust Fund	Pension Trust Fund
<u>ADDITIONS</u>		
Contributions:		
Employer.....	\$ 2,907,000	\$ 1,501,895
Plan Members.....		225,732
TOTAL CONTRIBUTIONS	<u>2,907,000</u>	<u>1,727,627</u>
Investment earnings:		
Net increase in fair value of investments.....	134,961	1,952,744
Interest.....	115,691	444,576
Dividends.....		467,751
TOTAL INVESTMENT EARNINGS	<u>250,652</u>	<u>2,865,071</u>
Less: investment expenses.....	<u>(656)</u>	<u>(102,462)</u>
NET INVESTMENT EARNINGS	<u>249,996</u>	<u>2,762,609</u>
TOTAL ADDITIONS	<u>3,156,996</u>	<u>4,490,236</u>
<u>DEDUCTIONS</u>		
Pension benefits.....		1,016,851
TOTAL DEDUCTIONS	<u>0</u>	<u>1,016,851</u>
CHANGE IN NET ASSETS	<u>3,156,996</u>	<u>3,473,385</u>
Net assets-beginning of the year.....	<u>0</u>	<u>23,341,525</u>
NET ASSETS-END OF THE YEAR	<u>\$ 3,156,996</u>	<u>\$ 26,814,910</u>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

STATEMENT OF NET ASSETS -- COMPONENT UNITS
DECEMBER 31, 2006

CITY OF AUBURN HILLS

Exhibit A-12

	<u>TIFA 85-A</u>	<u>TIFA 85-B</u>
<u>ASSETS</u>		
Cash and investments (Note M).....	\$ 6,425,825	\$ 3,684,254
Receivables:		
Taxes.....	923,470	1,324,044
Accrued Interest.....	5,056	2,811
Land (Note M).....	5,137,435	
Land Improvements (Note M).....	1,152,865	
Buildings & Improvements (Note M).....		
Office Equipment and Furniture.....		
Construction in progress (Note M).....		6,720
Roads and other infrastructure (Note M).....	14,668,791	1,905,086
TOTAL ASSETS	<u>28,313,442</u>	<u>6,922,915</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accounts payable.....	52,517	14,028
Retainages payable.....	14,432	
Due to other governmental units.....	3,240,343	1,094,474
Unearned revenue.....	923,470	1,324,044
Long-term debt (Note M).....	93,291	488,447
TOTAL LIABILITIES	<u>4,324,053</u>	<u>2,920,993</u>
<u>NET ASSETS</u>		
Investment in capital assets-net of related debt.....	20,959,091	1,911,806
Restricted for programs.....	3,030,298	2,090,116
TOTAL NET ASSETS	<u>\$ 23,989,389</u>	<u>\$ 4,001,922</u>

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

<u>TIFA 86-D</u>	<u>Brownfield Authority</u>	<u>Economic Development Corporation</u>	<u>Total</u>
\$ 2,749,976	\$ 1,366,840	\$ 9,549	\$ 14,236,444
2,081,714	363,652		4,692,880
2,017,211			7,867
			7,154,646
18,586,734			1,152,865
193,668			18,586,734
0			193,668
836,827			6,720
			17,410,704
<u>26,466,130</u>	<u>1,730,492</u>	<u>9,549</u>	<u>63,442,528</u>
7,796			74,341
2,000			16,432
33,766			4,368,583
2,081,714	363,652	1,600	4,694,480
1,477,908			2,059,646
3,603,184	363,652	1,600	11,213,482
21,634,440			44,505,337
1,228,506	1,366,840	7,949	7,723,709
<u>\$ 22,862,946</u>	<u>\$ 1,366,840</u>	<u>\$ 7,949</u>	<u>\$ 52,229,046</u>

**STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit A-13

<u>COMPONENT UNITS</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
TIFA 85-A.....	\$ 751,584		
TIFA 85-B.....	196,889		
TIFA 86-D.....	580,576		
Brownfield Authority.....	354,941		
Economic Development Corporation.....	789	0	
TOTAL COMPONENT UNITS	\$ 1,884,779	\$ 0	\$ 0

General revenues

Taxes.....
Use of money and property.....

Total General Revenues, Transfers and Extraordinary Item

Change in Net Assets

Net assets - beginning.....

Net Assets -- Ending

See Exhibit A-14, The Notes to Financial Statements are an integral part of the statement

Net (Expense) Revenue and Changes in Net Assets

<u>TIFA 85-A</u>	<u>TIFA 85-B</u>	<u>TIFA 86-D</u>	<u>Brownfield Authority</u>	<u>Economic Development Corporation</u>	<u>Total</u>
\$ (751,584)	\$ (196,889)	\$ (580,576)	\$ (354,941)	\$ (789)	\$ (751,584) (196,889) (580,576) (354,941) (789)
<u>(751,584)</u>	<u>(196,889)</u>	<u>(580,576)</u>	<u>(354,941)</u>	<u>(789)</u>	<u>(1,884,779)</u>
\$ 1,462,298	\$ 1,709,744	\$ 2,143,026	\$ 1,309,211		\$ 6,624,279
281,831	132,489	103,114	34,330	\$ 254	552,018
<u>1,744,129</u>	<u>1,842,233</u>	<u>2,246,140</u>	<u>1,343,541</u>	<u>254</u>	<u>7,176,297</u>
992,545	1,645,344	1,665,564	988,600	(535)	5,291,518
<u>22,996,844</u>	<u>2,356,578</u>	<u>21,197,382</u>	<u>378,240</u>	<u>8,484</u>	<u>46,937,528</u>
<u>\$ 23,989,389</u>	<u>\$ 4,001,922</u>	<u>\$ 22,862,946</u>	<u>\$ 1,366,840</u>	<u>\$ 7,949</u>	<u>\$ 52,229,046</u>

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE A-DESCRIPTION OF CITY OPERATIONS, REPORTING ENTITY AND FUND TYPES

The City of Auburn Hills was incorporated in 1983 out of the former Pontiac Township. The City covers an area of approximately 17.5 square miles and provides services to its 19,837 residents (2000 U. S. Census of Population) in many areas including police and fire protection, street maintenance, water and sewer services, community enrichment and recreation services, as well as other general governmental functions. The City is governed by an elected, seven-member non-partisan Council. The Council elects one of its members to serve as mayor.

As required by generally accepted accounting principles, these financial statements present the financial position and results of operation of the City of Auburn Hills (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Blended Component Units:

The Auburn Hills Building Authority is a legally separate entity governed by a five-member Board that is appointed entirely by the City Council. It is reported as if it was part of the primary government because its primary purpose is to finance and construct the City's public facilities.

Discretely Presented Component Units:

The following component units are reported within the component unit column in the government-wide financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

The Tax Increment Finance Authorities (TIFAs) are governed by a seven-member Board. The Board is appointed by the Mayor and confirmed by the City Council. The City can significantly influence the operations of the TIFA Board since the City Council approves the TIFA budgets. The TIFAs were created to finance infrastructure improvements within certain boundaries of the City.

The Brownfield Authority is governed by a five-member Board. The Board is appointed by the Mayor and confirmed by the City Council. Since the City Council appoints the Brownfield Authority, the City can significantly influence the operations of the Authority. The five-member board is comprised of one member of the City Council and four citizens at-large. The Brownfield Authority was created to provide a means for financing remediation of Brownfield (environmentally contaminated) sites within the City.

The Economic Development Corporation (EDC) is governed by a nine-member Board. This Board is appointed by the Mayor and confirmed by the City Council. Accordingly, the City can significantly influence the operations of the Economic Development Corporation. The EDC was created to provide a means and method for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving or expanding within the City. The EDC may issue industrial revenue bonds as a means of providing financing for certain enterprises.

Although no separate financial statements are prepared for the component units, all financial information can be obtained from the City's Finance Department.

NOTE B- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Auburn Hills conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of significant accounting policies used by the City of Auburn Hills.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

Government-Wide and Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and the component units even though the fiduciary fund statements are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, the fiduciary fund and the component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available for use. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. For this purpose, the City considers all revenues to be available if they are collected within 60 days of the end of the fiscal year. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal year. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability. Revenues which are considered measurable, but not available are recorded as a receivable and deferred revenue.

The City reports the following major governmental Funds:

- a. The General Fund is the general operating fund of the City. It is used to account for all financial resources of the City which are not required to be accounted for in other funds.
- b. The Major Streets Fund is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as major streets in the City.
- c. The Local Streets Fund is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as local streets in the City.
- d. The Police Fund is used to account for the revenues and expenditures of the City of Auburn Hills Police Department. This fund is financed primarily through a separate millage specifically for Police services.
- e. The Fire Fund is used to account for the revenues and expenditures of the City of Auburn Hills Fire Department. This fund is financed primarily through a separate millage specifically for Fire services.
- f. The Brown Road Special Assessment Fund is used to account for the funding and payment of principal and interest on debt issued in 1999 for the paving of Brown Road adjacent to the Auburn Mile Development. Property tax special assessments are made to the business in this development.
- g. The Street Improvement Fund is used to account for the revenues specifically designated for street improvements in the City. The fund is funded primarily through General Fund appropriations as well as the balance of bond proceeds specifically for street improvements.

Proprietary Funds are used to account for City operations which are similar to those often found in the private sector. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets.

The City reports the following major proprietary funds:

- a. The Water Fund accounts for the operations of the City's Water Department which provides water services to all residents of the City on a user charge basis.
- b. The Sewer Fund accounts for the operations of the City's Sewer Department which provides sewage disposal services to City residents on a user charge basis.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

Measurement Focus

- c. The Fieldstone Golf Club Fund is used to account for the operations of the City's municipal golf course, Fieldstone Golf Club. This fund is funded primarily through user fees charged to individuals using these facilities.

Additionally, the City reports the following fund types:

- a. Internal Service Funds are used to record the financing of services provided by the City to other departments and funds on a cost reimbursement basis.
- b. Three Fiduciary funds: the Agency, Pension Fund, and Retiree Health Care Trust.

The Agency Fund is used to account for assets held by the City as an agent for other governments or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement or results of operations.

Beginning in 2004, the Pension Fund was changed over from a third party managed activity to a City held and controlled trust. There is a Pension Board made up of nine members that administer the Pension Plan. The Pension trust holds the resources for the members and beneficiaries of the defined benefit pension plan. There are no restrictions on the assets to pay any particular member or beneficiary of either fund.

Beginning in 2006, the City created a Retiree Health Care Trust (RHCT). The RHCT is administered by a nine member Board. The RHCT holds the resources for the qualified retirees and their dependents and/or beneficiaries for retiree health care insurance. There are no restrictions on the assets to pay any particular member or beneficiary of either fund.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations of the City are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31 and the related property tax becomes a lien on December 1 of the following year. The related property taxes are billed December 1 with the final collection date of February 28 before the delinquent taxes are turned over to the County for collection and payoff. Property taxes to finance 2006 operations were assessed December 31, 2004, levied on December 1, 2005, and substantially collected in January and February, 2006. See Note K for further information.

Property taxes levied December 1, 2006 will be used to finance the operations in 2007. As such, these taxes are recorded as deferred revenue in each respective fund at December 31, 2006.

Cash Equivalents

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments are recorded at fair value, based on quoted market prices.

Receivables and Payables

In general, on the fund based statements, outstanding balances between funds are reported as "due to/from other funds." However, any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown net of allowance for uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

Inventories and Prepaid Items

Inventories in the business-type activities are valued at cost, on a first-in, first-out basis which approximates market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items in both government-wide and fund financial statements.

Fixed Assets

Fixed assets, which include property, plant, equipment, infrastructure assets (e.g. roads, and storm water drains), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if the original purchase price is not available. Donated capital assets are recorded at estimated fair market value at the time of donation.

Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are:

Water and Sewer Mains	50 years
Vehicles	3-5 years
Office Furniture and Equipment	3-5 years
Machinery and Equipment	5 years
Buildings and Improvements	30-35 years
Roads	40 years
Storm Drains	50 years

Long-Term Liabilities

In the government-wide financial statements and the fund financial statements for the proprietary fund types, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities, business type activities or proprietary fund type statement of net assets.

In the governmental fund financial statements, the face amount of the debt issued is reported as other financing sources in the period when the debt was issued. Bond premiums received on debt issuances are reported as other financing sources while bond discounts are reported as other financing uses in the period that the bonds were issued. Issuance costs are reported in the same period as the bond issuance and are reported as debt service expenditures.

Employee Vacation and Sick Time

City employees are granted vacation in varying amounts based on length of service. Vacation pay is accrued and fully vested when earned; upon termination, employees are paid accumulated vacation at full rates to a limit of their maximum accrual which varies by bargaining unit.

All employees accrue one day of sick time monthly. This sick time is fully vested when earned. Any accrued amount in excess of 240 hours is paid at full rates at the end of each year. Upon termination, employees are paid for their remaining sick time at full rates.

The liability for this accrued sick and vacation time is reported in the Accrued Sick and Vacation Internal Service Fund.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

Restricted Net Assets

Assets which are restricted net assets for specified uses by bond debt requirements, grant provisions, or other external requirements are classified as restricted net assets. Following is a list of restricted net assets:

Police	\$ 17,966,582
Fire	2,327,752
Brown Road Special Assessments	4,802,664
Tree Ordinance	551,711
Drug Forfeiture	48,235
Police Grants and Donations	6,898
Metro Act	96,877
Library Expansion	115,970
	<hr/>
Total Restricted Assets	\$ 25,916,689

In addition, the \$7,723,709 restricted net assets of the component units are restricted to be spent in accordance with the respective TIFA, Brownfield and EDC plan documents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE C-CASH AND CASH EQUIVALENTS

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool.

The Pension Trust Fund is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small business, certain state and local government obligations, and certain other specified investment vehicles.

The City adopted Public Act 149 of 1999 which allows the City to invest retiree health care funds in vehicles allowed under Michigan Public Act 314 of 1965.

The City has designated six banks for the deposit of local unit funds. The investment policy adopted by the commission in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to three types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy restricts depository accounts to federally insured institutions located within the state of Michigan (consistent with state law). At year end, the City had \$26,611,726 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy restricts the average maturity of investments to two (2) years with the exception of long-term debt or capital fund investments which may be invested in securities matched to cash flow requirements with a maximum maturity of five (5) years. The City's pension and retiree health investment policies restrict cash equivalents to a dollar-weighted maturity of ninety (90) days or less. At year end, the City's investments have the following range of maturity dates:

<u>Governmental Unit</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>			
		<u>< 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>>10</u>
Pension	Pooled Funds			\$ 8,813,466	(weighted maturity of 6.01 yrs)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's general investment policy further limits investments to: commercial paper to the highest rating (A-1/P-1); bankers' acceptances whose long-term debt rating is at least an A; obligations of this state or its political subdivisions to the highest rating (A-1/P-1); pooled funds with a rating of at least an A.

The City's pension fund and retiree health care investment policies require the fixed income managers to have no more than 15% of the portfolio in non-investment grade securities (BB to CCC rated) with at least 80% of the non-investment grade consisting of B-rated or higher securities. As of December 31, 2006, the pension fund's fixed income portfolio held non-investment grade securities that represented approximately 1% of the total fixed income portfolio.

As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Governmental Unit</u>	<u>Investment Type</u>	<u>Rating</u>	<u>Fair Value</u>	<u>Rating Agency</u>
Primary Government	Pooled Funds	Aaa	\$ 33,829,567	Moody's
Component Units	Pooled Funds	Aaa	10,144,589	Moody's
Trust & Agency	Pooled Funds	Aaa	6,515,311	Moody's
Retiree Health Care	Pooled Funds	Aaa	1,411	Moody's
Pension	Pooled Funds	Not Rated	122,163	
	Pooled Funds	AA+	8,813,466	S & P

NOTE D-DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property Taxes		\$ 20,979,893
Special Assessments	\$ 4,634,000	
Other	1,753,014	
Total Deferred Revenue	\$ 6,387,014	\$ 20,979,893

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE E-FIXED ASSETS

Capital asset activity of the City's governmental and business-type activities was as follows:

<u>Governmental Activities</u>	<u>Balance at Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at Dec. 31, 2006</u>
Capital assets not being depreciated:				
Land & Improvements	\$ 5,004,573	\$ 12,077	\$ -	\$ 5,016,650
Capital assets being depreciated				
Office Furniture & Equipment	878,609			878,609
Machinery & Equipment	3,054,402	337,536	99,796	3,292,142
Vehicles	5,341,857	477,380	143,912	5,675,325
Buildings & Improvements	14,917,249	1,325,023		16,242,272
Storm Drains	5,878,324			5,878,324
Roads	61,625,127	1,947,195		63,572,322
Subtotal	91,695,568	4,087,134	243,708	95,538,994
Accumulated Depreciation:				
Office Furniture & Equipment	773,583	57,279		830,862
Machinery & Equipment	1,939,578	386,978	95,526	2,231,030
Vehicles	4,451,054	504,584	143,912	4,811,726
Buildings & Improvements	4,457,138	443,367		4,900,505
Storm Drains	511,738	117,566		629,304
Roads	13,932,483	1,564,968		15,497,451
Subtotal	26,065,574	3,074,742	239,438	28,900,878
Net capital assets being depreciated	65,629,994	1,012,392	4,270	66,638,116
Net capital assets	<u>\$ 70,634,567</u>	<u>\$ 1,024,469</u>	<u>\$ 4,270</u>	<u>\$ 71,654,766</u>

<u>Business-Type Activities</u>	<u>Balance at Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at Dec. 31, 2006</u>
Capital assets not being depreciated:				
Land	\$ 8,314,199	\$ -	\$ -	\$ 8,314,199
Land Improvements	83,297			83,297
Construction-in-Progress	1,997,700		1,997,700	-
Subtotal	10,395,196	-	1,997,700	8,397,496
Capital assets being depreciated:				
Water & Sewer Mains	59,995,203	385,885		60,381,088
Machinery & Equipment	2,611,209	17,487	37,399	2,591,297
Buildings and Improvements	7,911,465	2,196,486		10,107,951
Vehicles	875,221	178,903	53,932	1,000,192
Subtotal	71,393,098	2,778,761	91,331	74,080,528
Accumulated Depreciation:				
Water & Sewer Mains	9,071,101	1,425,185		10,496,286
Machinery & Equipment	1,971,939	375,986	35,799	2,312,126
Buildings and Improvements	1,610,592	318,627		1,929,219
Vehicles	676,331	128,810	53,932	751,209
Subtotal	13,329,963	2,248,608	89,731	15,488,840

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE E-FIXED ASSETS

	<u>Balance at Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at Dec. 31, 2006</u>
<u>Business-Type Activities</u>				
Net Capital Assets being depreciated	58,063,135	530,153	1,600	58,591,688
Net Capital assets	<u>\$ 68,458,331</u>	<u>\$ 530,153</u>	<u>\$ 1,999,300</u>	<u>\$ 66,989,184</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities

Management and Planning	\$ 37,297
Public Safety	424,286
Streets, highways & public improvements	2,045,879
Community and economic development	919
General Support	126,924
Internal Services	439,437
Total Governmental-Type Activities	<u>3,074,742</u>

Business-Type Activities

Water	1,030,823
Sewer	788,631
Fieldstone Golf Club	264,471
Internal Services	164,683
Total Business-Type Activities	<u>2,248,608</u>
Total Depreciation Expense	<u>\$ 5,323,350</u>

NOTE F-LONG-TERM DEBT (including current portions)

Long-term debt of the City is as follows:

	<u>Balance at Jan. 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at Dec. 31, 2006</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
5.5% to 6.0% Library Improvement Bonds Issued 12/1/94, Original Issue Amount- \$3,600,000	\$ 495,000	\$ -	\$ (495,000)	\$ -	\$ -
4.6% to 6.0% John E. Olsen Drain Project, Issued 7/1/96, Original Issue Amount- \$950,000 (2)	675,000		(50,000)	625,000	50,000
10.25% Land Contract for Land Purchases Issued 6/30/96, Original Issue Amount- \$150,000 (3)	11,629		(11,629)	-	-
4.5% to 5.5% Special Assessment Bonds Issued 12/1/99, Original Issue Amount- \$7,250,000 (1)	5,075,000		(450,000)	4,625,000	475,000
Tax Tribunal Cases (4)	1,294,944	1,131,614	(213,551)	2,213,007	
Total Governmental Activities	<u>\$ 7,551,573</u>	<u>\$ 1,131,614</u>	<u>\$ (1,220,180)</u>	<u>\$ 7,463,007</u>	<u>\$ 525,000</u>

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE F-LONG-TERM DEBT (including current portions)

	Balance at Jan. 1, 2006	Additions	Reductions	Balance at Dec. 31, 2006	Due Within One Year
Business-Type Activities					
10.25% Land Contract for Land Purchases Issued 6/30/96, Original Issue Amount- \$250,000 (3)	\$ 19,380		\$ (19,380)	\$ -	\$ -
3.45% to 5.0% City of Auburn Hills Building Authority Bonds, Issued 4/28/99, Original Issue Amount-\$14,900,000	13,820,000		(765,000)	13,055,000	885,000
Total Business-Type Activities	13,839,380	-	(784,380)	13,055,000	885,000
Grand Total-All Primary Government Long-Term Debt (Including Current Portion)	\$ 21,390,953	\$ 1,131,614	\$ (2,004,560)	\$ 20,518,007	\$ 1,410,000

(1) The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. At December 31, 2006, the City has \$210,664 available in the Debt Service Funds for repayment of these bonds. In addition, there is \$4,592,000 of special assessments receivable in the future. Under Michigan law, the City is secondarily liable for payment of these bonds.

(2) The Olsen Drain project debt payment is recorded in the Storm Water Management Capital Project Fund and is funded using general operating funds, which are transferred from the General Fund.

(3) These amounts represent the City liability of a land contract related to the purchase of land from an individual in 1997. The General Fund and the Fieldstone Golf Club enterprise fund have both shared in the cost of this acquisition, which was used to provide additional land for Fieldstone Golf Club.

(4) Tax Tribunal cases represent the amount of City property tax assessments which have been contested and are subject to repayment contingent upon the determination of the Michigan Tax Tribunal.

Defeased Debt-In 1999, the Building Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At December 31, 2006, \$12,800,000 of bonds outstanding is considered defeased.

The annual requirements to pay principal and interest on the obligations (excluding tax tribunal cases) outstanding as of December 31, 2006 are shown below:

Governmental Activities:

	Principal	Interest	Total
2007	\$ 525,000	\$ 275,125	\$ 800,125
2008	550,000	248,700	798,700
2009	575,000	220,975	795,975
2010	600,000	191,950	791,950
2011	650,000	161,075	811,075
2012-2016	2,350,000	274,063	2,624,063
Totals	5,250,000	1,371,888	6,621,888

Business-Type Activities:

	Principal	Interest	Total
2007	885,000	610,468	1,495,468
2008	790,000	572,855	1,362,855
2009	860,000	538,885	1,398,885
2010	895,000	501,045	1,396,045
2011	1,185,000	461,218	1,646,218

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE F-LONG-TERM DEBT (including current portions)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012-2016	6,880,000	1,417,588	8,297,588
2016-2017	<u>1,560,000</u>	<u>78,000</u>	<u>1,638,000</u>
Totals	<u>13,055,000</u>	<u>4,180,059</u>	<u>17,235,059</u>
<u>Total Primary Government</u>			
2007	1,410,000	885,593	2,295,593
2008	1,340,000	821,555	2,161,555
2009	1,435,000	759,860	2,194,860
2010	1,495,000	692,995	2,187,995
2011	1,835,000	622,293	2,457,293
2012-2016	9,230,000	1,691,651	10,921,651
2016-2017	<u>1,560,000</u>	<u>78,000</u>	<u>1,638,000</u>
Totals	<u>\$ 18,305,000</u>	<u>\$ 5,551,947</u>	<u>\$ 23,856,947</u>

By statute, the City general obligation debt is restricted to 10% of the equalized value of all property in the City. Certain obligations, such as special assessment debt, are not subject to this limitation. At December 31, 2006 the City's debt limit amounted to \$286,937,403 and indebtedness subject to the limitation aggregated \$13,680,000.

NOTE G-INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Non-major governmental funds	General Fund	\$ 11,782
	Major Streets	195
	Local Streets	268
	Police Fund	12,068
	Fire Fund	2,523
	Non-major governmental funds	96
	Internal Service Fund	373
	Water and Sewer Funds	810
	Fieldstone Golf Club	<u>116</u>
	Total Non-major governmental funds	28,231
Sewer	Fieldstone Golf Club	1,700,170
Water	Fieldstone Golf Club	563,816
Accrued Sick and Vacation Fund	General Fund	465,636
	Major Streets	35,807
	Local Streets	17,778
	Police Fund	620,571
	Fire Fund	175,206
	Internal Service Fund	35,477
	Non-major governmental funds	12,654
	Water and Sewer Funds	87,232
	Fieldstone Golf Club	<u>17,074</u>
	Total Accrued Sick and Vacation Fund	1,467,435
Total		<u>\$ 3,759,652</u>

These balances result from the time lag between dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE H-INTERFUND TRANSFERS

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Major Streets	\$ 550,000
	Local Streets	600,000
	Fieldstone Golf Club	219,288
	Non-Major Governmental Funds	1,700,000
	Total General Fund	3,069,288
Major Streets	Water and Sewer Funds	65,052
Sewer	Fieldstone Golf Club	219,288
Total		<u>\$ 3,353,628</u>

The transfers from the General Fund to the Major and Local Street Funds were to supplement the Act 51 resources provided by the State of Michigan for the maintenance of major and local roads (\$550,000 and \$600,000 respectively). The transfers to the non-major governmental funds were to provide funds for park improvement projects (\$150,000), to provide funds for sidewalk maintenance (\$25,000), to provide funds for drainage projects (\$275,000), and to provide for funds for street construction projects (\$1,250,000). The transfer from Major Streets to the Water and Sewer funds represents a repayment for funds provided to Major Streets for a major road project in 1996. The fund transfers from General and Sewer to the Fieldstone Golf Club were provided to support the current year's operations.

NOTE I-RETIREMENT PLANS

DEFINED BENEFIT PLAN

Plan Description - The City contributes to a single-employer defined benefit pension plan. This plan was available to all full-time employees hired prior to 1998, but is no longer available to new employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The plan is administered through the City of Auburn Hills Pension Board. Due to its nature, the plan does not issue an annual financial statement, either as a stand-alone financial report, or by inclusion in the report of a public employee retirement system or another entity.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with three collective bargaining units. The plan required a contribution of 31.95% of gross wages for 2006.

Annual Pension Cost - For the year ended December 31, 2006, the City's annual pension cost of \$1,595,976 was equal to the City's required contribution of \$1,384,529, less interest of \$292,173 on the net pension asset, plus an annual required contribution adjustment in 2006 for \$503,620. The net pension asset amount at the end of 2006 was reduced by \$4,698,021 to adjust prior year estimates in the annual pension cost. The City's actual contribution for the year ended December 31, 2006 was \$1,501,895. The annual required contribution was determined as part of an actuarial valuation at January 1, 2005, using the individual entry age normal cost method.

Significant actuarial assumptions used include (a) a 7.5% investment rate of return, (b) projected salary increase of 5% per year compounded annually and (c) postretirement benefit increases of 5% per year where appropriate. Both (a) and (b) include an inflation component of 2.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 13 years.

Three year trend information is as follows:

	<u>As of December 31</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Annual Pension Cost	\$ 1,595,976	\$ 1,064,358	\$ 1,196,676
Percentage of Annual Pension Cost Contributed	94.1%	148.2%	173.8%
Net Pension Asset	(3,801,560)	(8,593,662)	(8,080,751)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE I-RETIREMENT PLANS

	Actuarial Valuation		
	January 1, 2006	January 1, 2005	January 1, 2004
Actuarial Value of Assets	\$ 23,341,525	\$ 21,163,078	\$ 18,229,129
Actuarial Accrued Liability (Entry Age)	33,270,684	30,440,335	30,459,067
Unfunded Actuarial Accrued Liability	9,929,159	9,277,257	12,229,938
Funded Ratio	70.2%	69.5%	59.8%
Covered Payroll	4,285,822	4,333,426	4,666,254
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	231.7%	214.1%	262.1%

For the year ended December 31, 2006, the City's annual pension cost and net pension asset for the current year is:

Annual Required Contribution	\$ 1,384,529
ARC Adjustment	503,620
Interest on Net Pension Asset	(292,173)
Annual Pension Cost	1,595,976
Contributions made	(1,501,895)
Decrease / (Increase) in Net Pension Asset	94,081
Adjustment to Net Pension Asset Estimate	4,698,021
Net Pension Asset Beginning of the Year	(8,593,662)
Net Pension Asset End of the Year	\$ (3,801,560)

DEFINED CONTRIBUTION PLAN

The City established a defined contribution plan in 1998 to provide an alternative to the defined benefit plan. The International City Managers Association (ICMA) administers the plan, and the City Council has authority over plan provisions and contribution requirements. The defined contribution pension plan is the only plan available to employees hired after January 1, 2000. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. At December 31, 2006, there were 195 members. The City is required to contribute between 9% and 12% of total salaries. Employees may contribute up to 100% of their salaries not to exceed amounts limited by statute. In accordance with these requirements, the City contributed \$665,970 during the current year and employees contributed \$372,135. Employees are vested after 5 years of service. Plan provisions and contribution requirements are established by the City Council and collective bargaining and may be amended.

POST-EMPLOYMENT BENEFITS

The City provides health care benefits to former City Council members and retired full-time City employees in accordance with labor contracts and personnel policies. There were 44 retirees (79 including their spouses and dependents) eligible for health care benefits as of December 31, 2006. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During 2006, the amount expended for post-employment benefits was \$481,779.

Beginning in 1997, the City started a formal method to pre-fund this growing liability. An actuarial valuation of the accrued liability for this benefit was first done for the period ending December 31, 1997. Beginning in 1999, the actuarial recommended percentage of payroll was contributed to the Retirees Health Care fund to assure funding for this benefit will be available in future years. This fund has a fund balance of \$3,276,366 as of December 31, 2006. Total contributions of \$910,693 were made to this fund in 2006.

Effective December 31, 2008 the Governmental Account Standards Board Statement 45 will require government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The City of Auburn Hills has been accruing for postretirement benefits since 1999. An actuarial determined percent of the employee's payroll is expensed and transferred to a Retiree Health Benefit fund each payroll.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE J-RISK MANAGEMENT, CONTINGENCIES, AND COMMITMENTS

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for most of these potential risks. In 2004, the City became self insured for property damage to City vehicles under \$75,000. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five years.

Under provisions of a contractual agreement signed in 1995 between the City and the Cardell Corporation, the City received a cash advance during 2006 in the amount of \$139,196 to provide operating funds for the Fieldstone Golf Club Fund. A total of \$2,176,927 in cash advances have been received from the Cardell Corporation under the provisions of this contractual agreement. Repayment of this advance is only required when the Fieldstone Golf Club Fund reaches a specified cash balance. Because repayment of this advance is required only after the Fieldstone Golf Club Fund reaches specific cash balance levels, these advances have been recorded as revenue in the Fieldstone Golf Club Fund.

The City is aware of several asserted claims. It is the opinion of the City that any material future liability arising from these claims would be within the limits of the City's insurance coverage. No provision has been made in the accompanying basic financial statements for potential liability, if any, that may arise from these suits.

During 2003, the State of Michigan asserted a claim for a refund of school taxes captured for Tax Increment Financing Authority (TIFA) purposes. This issue has not been settled. It is the City's belief that the majority of the funds were captured and spent in accordance with all applicable laws and regulations regarding tax increment financing. To be conservative, the City has recorded a liability of \$4,368,583 to cover any future reimbursement to the State of Michigan.

NOTE K-PROPERTY TAXES

The City property tax is levied each December 1 on the taxable valuation of property located in the City as of the preceding December 31. On December 31, the property tax attachment is an enforceable lien on property and is payable by the last day of the next February following. Taxable values are established annually by the City and are equalized by the County. The 2005 taxable valuation of the City totaled approximately \$2,450 million of which approximately \$701 million is captured by the Tax Increment Financing Authority (TIFA) and \$30.2 million by the Brownfield Authority. The City property tax levy for 2005 (which was collected primarily in 2006) was composed of the following components:

<u>Levy Purposes</u>	<u>Millage Rate</u>	<u>Maximum Allowable Millage Rate</u>	<u>Tax Revenue</u>
General Operating	2.1100	2.1125	\$ 4,276,080
Fire Department	1.7604	1.7604	3,488,808
Police Department	5.9857	5.9857	11,862,185
Library	0.7041	0.7041	1,418,375
Library Expansion Debt Millage	0.2300	1.0000	460,632
Captured Property Taxes			7,200,979
Total City Property Tax Levy	<u>10.7902</u>	<u>N/A</u>	<u>\$ 28,707,059</u>

By agreement with Oakland County, the County purchases at face value the real property taxes receivable returned delinquent each March 1st. As a result the City receives 100% of real property taxes levied for the year regardless of delinquencies. The County does not purchase the delinquent personal property taxes. However, the City has a number of ways to effect collection of delinquent personal property taxes.

The amounts are recognized in the respective general, special revenue, and debt service funds as property tax revenue.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE L-CONSTRUCTION CODE FEES

The City oversees building construction, in accordance with the State's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and cumulative shortfall since January 1, 2000 is presented as follows:

Shortfall at December 31, 2005	\$ (3,114,278)
Building Permit Revenue	480,324
Related Expenses	
Direct Costs (Building & Community Development)	787,829
Estimated Indirect Costs	111,264
Total Construction Code Expenditures	<u>899,093</u>
Cumulative Shortfall at December 31, 2006	<u>\$ (3,533,047)</u>

NOTE M-COMPONENT UNIT DISCLOSURES

The City of Auburn Hills has five component units. The five units consist of three tax increment financing authorities: TIFA A, TIFA B, and TIFA D, the Brownfield Authority and the Economic Development Corporation. The financial information for the component units is found in Exhibits A-12 and A-13.

Unearned Revenue

Property taxes levied in December 2006 that will be recognized as revenue in 2007 in the amount of \$4,692,880 are shown as unearned revenue.

Cash and Cash Equivalents

The cash and cash equivalents of the City's component units reflected in the financial statement consist of deposits, certificates of deposits, and bank investment pools and are shown in more detail in Note C. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares. The investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Long-Term Debt

The long-term debt for the component units of the City of Auburn Hills is presented below

	<u>Balance at Jan. 1, 2006</u>	<u>Additions (Reductions)</u>	<u>Balance at Dec. 31, 2006</u>	<u>Due Within One Year</u>
Tax Tribunal Cases	\$ 874,837	\$ 1,184,809	\$ 2,059,646	\$ -

No Commitment Debt

Excluded from the component unit Long-Term Debt are revenue bonds issued by the Economic Development Corporation to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. As of December 31, 2006, there were 5 series of Economic Development Bonds outstanding. The aggregate principal amount outstanding could not be determined. However, their original issue amounts totaled \$16,850,000.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF AUBURN HILLS

EXHIBIT A-14

NOTE M-COMPONENT UNIT DISCLOSURES

Property and Equipment

The following table summarizes the changes in the fixed assets of the component units:

	Balance at Jan. 1, 2006	Additions	Deletions & Adjustments	Balance Dec. 31, 2006
Capital assets not being depreciated:				
TIFA 85-A (Land)	\$ 5,137,435			\$ 5,137,435
TIFA 86-D (Land)	2,017,211			2,017,211
TIFA 86-A (Construction in Progress)		\$ 6,720		6,720
TIFA 86-D (Construction in Progress)	3,311,813	2,944,264	6,256,077	-
Subtotal	10,466,459	2,950,984	6,256,077	7,161,366
Capital assets being depreciated:				
TIFA 85-A (Land Improvements)	868,838	373,924		1,242,762
TIFA 85-A (Roads)	16,777,320	-		16,777,320
TIFA 86-B (Roads)	1,904,978	210,263		2,115,241
TIFA 86-D (Roads)	645,105	252,000		897,105
TIFA 86-D (Buildings & Improvements)	13,659,530	6,256,077		19,915,607
TIFA 86-D (Furniture and Equipment)		215,187		215,187
Subtotal	33,855,771	7,307,451	-	41,163,222
	Balance at Jan. 1, 2006	Additions	Deletions & Adjustments	Balance Dec. 31, 2006
<u>Accumulated depreciation</u>				
TIFA 85-A (Land Improvements)	37,107	52,790		89,897
TIFA 85-A (Roads)	1,689,096	419,433		2,108,529
TIFA 86-B (Roads)	159,903	50,253		210,156
TIFA 86-D (Roads)	41,000	19,277		60,277
TIFA 86-D (Buildings & Improvements)	909,184	419,689		1,328,873
TIFA 86-D (Furniture and Equipment)		21,519		21,519
Subtotal	2,836,290	982,961	-	3,819,251
Net Capital Assets being depreciated	31,019,481	6,324,490	-	37,343,971
Net capital assets	\$ 41,485,940	\$ 9,275,474	\$ 6,256,077	\$ 44,505,337

**REQUIRED
SUPPLEMENTARY INFORMATION**

**CITY OF AUBURN HILLS EMPLOYEE PENSION PLAN
ANALYSIS OF FUNDING PROGRESS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit B-1

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll (b-a)/c
12/31/05	\$ 23,341,525	\$ 33,270,684	\$ 9,929,159	70.2%	\$ 4,285,822	231.7%
12/31/04	21,163,078	30,440,335	9,277,257	69.5%	4,333,426	214.1%
12/31/03	18,229,129	30,459,067	12,229,938	59.8%	4,666,254	262.1%
12/31/02	14,199,574	27,723,143	13,523,569	51.2%	4,408,490	306.8%
12/31/01	15,243,527	26,007,423	10,763,896	58.6%	4,524,623	237.9%
12/31/00	15,424,423	22,637,823	7,213,400	68.1%	4,874,253	148.0%

See Exhibit A-14, Notes to Financial Statements

**CITY OF AUBURN HILLS EMPLOYEE PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit B-2

<u>Payments Fiscal Year Ending</u>	<u>Valuation Date</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
12/31/2006	1/1/2005	\$ 1,384,529	108.5%
12/31/2005	1/1/2004	1,670,414	94.4%
12/31/2004	1/1/2003	1,736,504	119.8%
12/31/2003	1/1/2002	1,591,762	57.4%
12/31/2002	1/1/2001	1,125,465	78.1%
12/31/2001	1/1/2000	889,899	85.5%

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2005, the latest actuarial valuation, follows:

Actuarial Cost Method.....	Individual Entry Age
Amortization Method.....	Level Percent of Payroll, Closed
Remaining Amortization Period.....	13 Years
Asset Valuation Method.....	Market Value
Actuarial Assumptions:	
Investment Return.....	7.50%
Projected Salary Increases.....	5.00%
Cost of Living Adjustments.....	5.00% For eligible members
Inflation.....	5.00%

See Exhibit A-14, Notes to Financial Statements

MAJOR FUNDS

MAJOR FUNDS

FUND DESCRIPTIONS

General Fund-The General Fund is the general operating fund of the City. It is used to account for all financial resources of the City which are not required to be accounted for in other funds.

Major Streets-This fund is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as major streets in the City.

Local Streets-This fund is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as local streets in the City.

Police-The Police fund is used to account for the revenues and expenditures of the City of Auburn Hills Police Department. This fund is financed primarily through a separate millage specifically for Police services.

Fire-The Fire fund is used to account for the revenues and expenditures of the City of Auburn Hills Fire Department. This fund is financed primarily through a separate millage specifically for Fire Department services.

Brown Road Special Assessment Debt-This fund is used to account for the funding and payment of principal and interest on debt issued in 1999 for the paving of Brown Road adjacent to the Auburn Mile Development. Property tax special assessments are made to the businesses in this development.

Street Improvement-This fund is used to account for the revenues specifically designated for street improvements in the City. This fund is funded primarily through General Fund appropriation as well as the balance of bond proceeds specifically for street improvements.

**SCHEDULE OF REVENUE AND TRANSFERS IN
BUDGET AND ACTUAL -- GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit B-3

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
<u>OPERATING REVENUE</u>				
<u>TAXES</u>				
Current property taxes.....	\$ 3,999,134	\$ 3,999,134	\$ 4,276,079	\$ 276,945
Tax collection fee.....	862,422	862,422	1,014,209	151,787
TOTALS	4,861,556	4,861,556	5,290,288	428,732
<u>LICENSES AND PERMITS</u>				
Building permits.....	375,000	375,000	166,208	(208,792)
Electrical permits.....	80,000	80,000	99,660	19,660
Heat, vent, & AC permits.....	80,000	80,000	61,350	(18,650)
Plumbing permits.....	47,000	47,000	38,499	(8,501)
Business licenses and permits	48,150	48,150	23,340	(24,810)
Other licenses and permits.....	100,025	100,025	134,758	34,733
TOTALS	730,175	730,175	523,815	(206,360)
<u>CHARGES FOR SERVICES</u>				
Engineering services.....	120,000	120,000	124,782	4,782
Plan review fees.....	185,000	185,000	108,746	(76,254)
Recreation programs and activities.....	84,800	84,800	82,081	(2,719)
Senior citizen programs and activities.....	100,418	100,418	104,738	4,320
TOTALS	490,218	490,218	420,347	(69,871)
<u>STATE SOURCES</u>				
SMART (transportation) grant.....	41,878	41,878	3,658	(38,220)
State aid grant.....	0	0	0	0
State shared revenue sharing.....	1,621,704	1,621,704	1,580,493	(41,211)
TOTALS	1,663,582	1,663,582	1,584,151	(79,431)
<u>USE OF MONEY & PROPERTY</u>				
Interest revenue.....	200,000	200,000	1,429,521	1,229,521
Sale of fixed assets.....	0	0	0	0
Building rental.....	569,923	569,923	569,923	0
TOTALS	769,923	769,923	1,999,444	1,229,521
<u>ADMINISTRATIVE & INTERFUND CHARGES</u>				
Administrative charges.....	1,236,763	1,236,763	1,236,763	0
Interfund charges.....	2,453,126	2,453,126	2,453,126	0
TOTALS	3,689,889	3,689,889	3,689,889	0
<u>OTHER REVENUE</u>				
	889,000	889,000	752,941	(136,059)
TOTAL REVENUE	\$ 13,094,343	\$ 13,094,343	\$ 14,260,875	\$ 1,166,532

**SCHEDULE OF EXPENDITURES AND APPROPRIATIONS
BUDGET AND ACTUAL -- GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

EXHIBIT B-4

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
<u>LEGISLATIVE</u>				
City Council.....	\$ 234,317	\$ 234,317	\$ 238,503	\$ 4,186
<u>MANAGEMENT & PLANNING</u>				
Assessor.....	880,264	880,264	829,099	(51,165)
City Clerk.....	446,277	446,277	412,009	(34,268)
Public Services Administration.....	0	0	12,763	12,763
City Manager.....	510,374	510,374	570,908	60,534
Finance.....	431,284	431,284	378,440	(52,844)
General Administration.....	670,700	670,700	504,312	(166,388)
Pension Board.....	50,000	50,000	51,493	1,493
Management Information Systems.....	485,140	485,140	492,382	7,242
Treasurer.....	483,046	483,046	452,547	(30,499)
TOTALS	3,957,085	3,957,085	3,703,953	(253,132)
<u>STREETS, HIGHWAYS & PUBLIC IMPROVEMENTS</u>				
Capital Improvements.....	368,800	368,800	368,800	0
<u>COMMUNITY & ECONOMIC DEVELOPMENT</u>				
Building.....	884,568	884,568	923,160	38,592
Economic Development.....	0	0	4,018	4,018
Community Development.....	536,171	536,171	520,191	(15,980)
Planning Commission & Zoning Board of Appeals.....	0	0		0
Recreation.....	451,002	451,002	484,882	33,880
Grant Expenditures.....	51,490	51,490	50,597	(893)
Senior Citizens.....	381,427	381,427	404,277	22,850
TOTALS	2,304,658	2,304,658	2,387,125	82,467
<u>GENERAL SUPPORT</u>				
Facilities.....	1,224,417	1,224,417	1,265,139	40,722
Parks and Grounds.....	1,429,219	1,429,219	1,514,857	85,638
TOTALS	2,653,636	2,653,636	2,779,996	126,360
<u>CAPITAL OUTLAY</u>				
Treasurer.....		0		0
Facilities.....	168,700	168,700	142,606	(26,094)
Parks and Grounds.....	24,000	24,000		(24,000)
Capital Improvements.....	12,077	12,077	12,077	0
Management Information Systems.....	234,500	234,500	66,471	(168,029)
TOTALS	439,277	439,277	221,154	(218,123)
<u>DEBT SERVICE</u>				
MTT refunds.....	50,000	50,000	4,501	(45,499)
Principal.....				0
Interest.....				0
TOTALS	50,000	50,000	4,501	(45,499)
TOTAL EXPENDITURES	10,007,773	10,007,773	9,704,032	(303,741)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
<u>TRANSFERS</u>				
<u>Special Revenue:</u>				
Major Streets.....	\$ 550,000	\$ 550,000	\$ 550,000	\$ 0
Local Streets.....	600,000	600,000	600,000	0
Fire.....	0	0	0	0
Park Improvements.....	150,000	150,000	150,000	0
Sidewalks	25,000	25,000	25,000	0
TOTALS	<u>1,325,000</u>	<u>1,325,000</u>	<u>1,325,000</u>	<u>0</u>
<u>Capital Projects:</u>				
Street Improvement.....	1,250,000	1,250,000	1,250,000	0
Storm Water Management.....	275,000	275,000	275,000	0
TOTALS	<u>1,525,000</u>	<u>1,525,000</u>	<u>1,525,000</u>	<u>0</u>
<u>Proprietary Funds:</u>				
Fieldstone Golf Club.....	219,288	219,288	219,288	0
TOTALS	<u>219,288</u>	<u>219,288</u>	<u>219,288</u>	<u>0</u>
TOTAL TRANSFERS	<u>3,069,288</u>	<u>3,069,288</u>	<u>3,069,288</u>	<u>0</u>
TOTAL EXPENDITURES AND TRANSFERS	<u>\$ 13,077,061</u>	<u>\$ 13,077,061</u>	<u>\$ 12,773,320</u>	<u>\$ (303,741)</u>

**SCHEDULE OF REVENUES AND OTHER SOURCES
BUDGET AND ACTUAL -- OTHER MAJOR FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

EXHIBIT B-5

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
<u>MAJOR STREETS</u>				
State sources.....	\$ 963,829	\$ 963,829	\$ 945,302	\$ (18,527)
Use of money and property.....	3,502	3,502	22,538	19,036
General fund appropriation.....	550,000	550,000	550,000	0
Other.....	0	0	4,050	4,050
TOTALS	\$ 1,517,331	\$ 1,517,331	\$ 1,521,890	\$ 4,559
<u>LOCAL STREETS</u>				
State sources.....	\$ 292,075	\$ 292,075	\$ 288,181	\$ (3,894)
Use of money and property.....	3,000	3,000	16,029	13,029
Other revenues.....	4,000	4,000	1,050	(2,950)
General fund appropriation.....	600,000	600,000	600,000	0
TOTALS	\$ 899,075	\$ 899,075	\$ 905,260	\$ 6,185
<u>POLICE</u>				
Property taxes.....	\$ 11,253,001	\$ 11,253,001	\$ 11,862,185	\$ 609,184
Licenses and permits.....	15,000	15,000	20,750	5,750
Charges for services.....	493,000	493,000	520,846	27,846
Fines and forfeitures.....	230,000	230,000	220,999	(9,001)
Federal sources.....	0	0	190,902	190,902
State sources.....	42,100	42,100	62,901	20,801
Use of money and property.....	360,000	360,000	828,258	468,258
Other.....	11,500	11,500	20,820	9,320
TOTALS	\$ 12,404,601	\$ 12,404,601	\$ 13,727,661	\$ 1,323,060
<u>FIRE</u>				
Property taxes.....	\$ 3,311,813	\$ 3,311,813	\$ 3,488,808	\$ 176,995
Charges for services.....	173,000	173,000	234,173	61,173
Use of money and property.....	60,000	60,000	104,316	44,316
Other.....	500	500	18,258	17,758
TOTALS	\$ 3,545,313	\$ 3,545,313	\$ 3,845,555	\$ 300,242
<u>BROWN ROAD SPECIAL ASSESSMENT DEBT</u>				
Special assessments.....	\$ 420,000	\$ 420,000	\$ 420,000	\$ 0
Use of money and property.....	301,708	301,708	308,322	6,614
TOTALS	\$ 721,708	\$ 721,708	\$ 728,322	\$ 6,614
<u>STREET IMPROVEMENT</u>				
Use of money and property.....	\$ 30,000	\$ 30,000	\$ 66,948	\$ 36,948
General fund appropriation.....	1,250,000	1,250,000	1,250,000	0
Donations.....	200,000	200,000		(200,000)
TOTALS	\$ 1,480,000	\$ 1,480,000	\$ 1,316,948	\$ (163,052)

**SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL -- OTHER MAJOR FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

EXHIBIT B-6

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Amended Budget</u>
<u>MAJOR STREETS</u>				
Personnel services.....	\$ 242,301	\$ 242,301	\$ 220,595	\$ (21,706)
Fringe benefits.....	163,758	163,758	150,281	(13,477)
Supplies and services.....	993,267	993,267	763,598	(229,669)
Transfer to Water fund.....	32,526	32,526	32,526	0
Transfer to Sewer fund.....	32,526	32,526	32,526	0
TOTALS	\$ 1,464,378	\$ 1,464,378	\$ 1,199,526	\$ (264,852)
<u>LOCAL STREETS</u>				
Personnel services.....	\$ 168,131	\$ 168,131	\$ 153,441	\$ (14,690)
Fringe benefits.....	113,120	113,120	108,722	(4,398)
Supplies and services.....	659,889	659,889	558,934	(100,955)
TOTALS	\$ 941,140	\$ 941,140	\$ 821,097	\$ (120,043)
<u>POLICE</u>				
Personnel services.....	\$ 4,961,230	\$ 4,961,230	\$ 4,771,463	\$ (189,767)
Fringe benefits.....	2,717,966	2,717,966	2,632,996	(84,970)
Supplies and services.....	2,544,518	2,544,518	2,396,712	(147,806)
Capital outlay.....	96,655	96,655	215,142	118,487
Transfer to General Fund.....	500,000	500,000	0	(500,000)
TOTALS	\$ 10,820,369	\$ 10,820,369	\$ 10,016,313	\$ (804,056)
<u>FIRE</u>				
Personnel services.....	\$ 1,479,244	\$ 1,479,244	\$ 1,466,947	\$ (12,297)
Fringe benefits.....	677,852	677,852	638,230	(39,622)
Supplies and services.....	1,274,671	1,274,671	1,262,167	(12,504)
Capital outlay.....	94,324	94,324	28,260	(66,064)
TOTALS	\$ 3,526,091	\$ 3,526,091	\$ 3,395,604	\$ (130,487)
<u>BROWN ROAD SPECIAL ASSESSMENT DEBT</u>				
Other.....	\$ 500	\$ 500	\$ 275	\$ (225)
Debt service:		0		
Principal payments.....	450,000	450,000	450,000	0
Interest payments.....	262,550	262,550	262,550	0
TOTALS	\$ 713,050	\$ 713,050	\$ 712,825	\$ (225)
<u>STREET IMPROVEMENT</u>				
Supplies and services.....	\$ 26,563	\$ 26,563	\$ 26,563	\$ 0
Capital outlay.....	2,690,000	2,690,000	3,115,833	425,833
TOTALS	\$ 2,716,563	\$ 2,716,563	\$ 3,142,396	\$ 425,833

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

The City employs the following procedures in establishing the budgetary data reflected in the financial statements:

- 1) Prior to the first Monday in August, City Departments, in conjunction with the Finance Office, prepare and submit their proposed operating budgets for the year beginning January 1 to the City Manager. Budgets are prepared for almost all funds of the City including the general fund, special revenue funds, debt service funds, capital project funds, internal service fund, and enterprise funds. No budget is prepared for the agency fund or the Accrued Sick and Vacation Internal Service fund.
- 2) The City Manager compiles and reviews such budget requests and then prepares recommendations and submits them to the Council on or before September 1st of each year.
- 3) A Public Hearing is conducted to obtain taxpayers' comments.
- 4) Not later than the first Monday in November, the budget is legally enacted through Council passage of the budget resolutions.
- 5) After the budget is adopted, any revisions that alter the total expenditures of a department or fund must be approved by the City Council.

The budget is adopted by the City Council on an activity (individual department) basis for the General Fund and at the fund total level for all other funds; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and other Major Governmental Funds service budgets are included in the required supplementary information. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures or liabilities. The amount of encumbrances outstanding at December 31, 2006 has not been calculated. There were no amendments to the current year budget.

Budgets shown were prepared on the same modified accrual basis used to reflect actual results. The budget has been prepared in accordance with generally accepted accounting principles (GAAP), except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)".

Significant excesses of expenditures over appropriations in individual funds are presented below:

	<u>Excess Expenditures</u>
Capital Project Funds	
Street Improvement	\$ 425,833

The Special Revenue Fund, Community Development Block Grant, the Capital Project Funds, Storm Water Management and Street Improvement, and the Major Governmental Fund, Local Streets incurred deficit fund balances at the end of 2006. The fund deficits are as follows: Community Development Block Grants (\$31,897), Storm Water Management (\$61,849), Street Improvement, (\$5,927), and Local Streets, (\$1,849).

OTHER SUPPLEMENTAL INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

**COMBINING BALANCE SHEET -- NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit C-1

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and investments (Note C).....	\$ 1,814,688	\$ 115,970	\$ 241,065	\$ 2,171,723
Receivables:				
Due from other governmental units.....	25,147		207,899	233,046
Due from other funds.....	28,230			28,230
Accounts.....	624		76,000	76,624
Property taxes.....				0
TOTAL ASSETS	<u>1,868,689</u>	<u>115,970</u>	<u>524,964</u>	<u>2,509,623</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>LIABILITIES</u>				
Accounts payable.....	89,738		47,951	137,689
Wages payable.....			1,148	1,148
Retainages payable.....			0	0
Due to other funds.....			12,750	12,750
Deposits payable.....	126,894			126,894
Deferred revenue.....	4,273		283,899	288,172
TOTAL LIABILITIES	<u>220,905</u>	<u>0</u>	<u>345,748</u>	<u>566,653</u>
<u>FUND BALANCES</u>				
Unreserved:				
Undesignated.....	1,647,784	115,970	179,216	1,942,970
TOTAL FUND BALANCES	<u>1,647,784</u>	<u>115,970</u>	<u>179,216</u>	<u>1,942,970</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,868,689</u>	<u>\$ 115,970</u>	<u>\$ 524,964</u>	<u>\$ 2,509,623</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -- NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit C-2

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
REVENUE				
Property taxes.....	\$	\$	460,632	\$ 460,632
Licenses and permits.....				
Charges for services.....	1,012,273			1,012,273
Fines and forfeitures.....				
Federal sources.....	191,112			191,112
State sources.....	65,374			65,374
Use of money and property.....	109,483	5,204	6,523	121,210
Other revenue.....	131,713		96,000	227,713
TOTAL REVENUE	1,509,955	465,836	102,523	2,078,314
EXPENDITURES				
Current operations:				
Legislative.....	16,297			16,297
Management and planning.....	818,750			818,750
Public safety.....	1,973,772			1,973,772
Streets, highways, & public improvements.....	254,178		151,120	405,298
Community and economic development.....	439,730	1,118		440,848
General support.....	274,099			274,099
Capital outlay.....	13,778		0	13,778
Debt service:				
Principal payments.....		495,000	50,000	545,000
Interest.....		14,850	37,250	52,100
TOTAL EXPENDITURES	3,790,604	510,968	238,370	4,539,942
REVENUE OVER (UNDER) EXPENDITURES	(2,280,649)	(45,132)	(135,847)	(2,461,628)
OTHER FINANCING SOURCES				
General fund transfers.....	175,000	0	275,000	450,000
Transfers-in.....		0	0	0
Transfers-out.....		0	0	0
TOTAL OTHER FINANCING SOURCES	175,000	0	275,000	450,000
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(2,105,649)	(45,132)	139,153	(2,011,628)
Fund balances at beginning of year.....	3,753,433	161,102	40,063	3,954,598
FUND BALANCES AT END OF YEAR	\$ 1,647,784	\$ 115,970	\$ 179,216	\$ 1,942,970

SPECIAL REVENUE FUNDS

Wayne-Oakland Disposal-This fund is used to account for the receipt and subsequent disbursement of "tipping fees" received from the landfill operator of this landfill located in the City.

Retiree Health Care-This fund is used to account for the fees charged to City Departments as a percentage of payroll to begin pre-funding of employee post-retirement health care costs based on actuarial assumptions.

Community Development Block Grant-This fund is used to account for the grant funds received from the Federal Government through Oakland County for projects benefiting low and moderate income persons or projects defined as having an urgent need.

Park Improvement-This fund is used to account for the revenues and expenditures relating to improvements made to City parks. This fund is primarily funded through State grants combined with General Fund appropriations.

Sidewalk Improvement-This fund is used to account for the revenues and expenditures relating to the construction and replacement of City sidewalks and bike paths. This fund is primarily funded through General Fund appropriations.

Tree Ordinance-This fund is used to account for the funds received under Ordinance 483 of the City which requires deposits and fees for the removal and replacement of protected species of trees.

State and Federal Drug Forfeiture-This fund is used to account for the money and property seized by the Police Department from individuals involved in the use, sale and distribution of illegal drugs.

Police Grants and Donations-This fund is used to account for the revenues and expenditures related to grants and donations that the Police Department received for operation of the DARE program and other associated law enforcement grants.

Metro Act-This fund is used to account for the revenue received from the State of Michigan to be used for right-of-way maintenance.

CAPITAL PROJECT FUNDS

Village Center Parking-This fund is used to account for the revenues and expenditures related to the construction of surface parking lots in the Village Center. The parking lot projects are financed by contributions from other City funds as well as charges to adjacent businesses that use the lots.

Storm Water Management-This fund is used to account for the revenues and expenditures relating to Storm Water Management projects in the City. This fund is funded primarily through General Fund appropriations as well as transfers from other City funds.

DEBT SERVICE FUND

Library Expansion-This fund is used to account for funding and payment of principle and interest on debt issued to finance the renovation of the City Library. The City Library, a separate governmental entity, leases this facility from the City.

COMBINING
FINANCIAL STATEMENTS

NON-MAJOR SPECIAL REVENUE FUNDS

**COMBINING BALANCE SHEET-NON MAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2006**

CITY OF AUBURN HILLS

EXHIBIT D-1

	<u>Wayne- Oakland Disposal</u>	<u>Retiree Health Care</u>	<u>Community Development Block Grant</u>	<u>Park Improvement</u>
<u>ASSETS</u>				
Cash and investments (Note C).....	\$ 78,115	\$ 101,748	\$ -	\$ 435,548
Receivables:				
Due from other governmental units.....			25,147	
Due from other funds.....		22,559		
Accounts receivable.....		624		
TOTAL ASSETS	<u>78,115</u>	<u>124,931</u>	<u>25,147</u>	<u>435,548</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>LIABILITIES</u>				
Accounts payable.....	3,400	5,561	52,771	2,904
Deposits payable.....				10,554
Due to other funds.....				
Deferred revenue.....			4,273	
TOTAL LIABILITIES	<u>3,400</u>	<u>5,561</u>	<u>57,044</u>	<u>13,458</u>
<u>FUND BALANCES (DEFICIT)</u>				
Fund balances (deficit)-unreserved:				
Undesignated.....	74,715	119,370	(31,897)	422,090
TOTAL FUND EQUITY (DEFICIT)	<u>74,715</u>	<u>119,370</u>	<u>(31,897)</u>	<u>422,090</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 78,115</u>	<u>\$ 124,931</u>	<u>\$ 25,147</u>	<u>\$ 435,548</u>

<u>Sidewalk Improvement</u>	<u>Tree Ordinance</u>	<u>State & Federal Drug Forfeiture</u>	<u>Police Grants and Donations</u>	<u>Metro Act</u>	<u>Total</u>
\$ 363,769	\$ 665,691	\$ 48,234	\$ 12,440	\$ 109,143	\$ 1,814,688
5,671					25,147
					28,230
					624
<u>369,440</u>	<u>665,691</u>	<u>48,234</u>	<u>12,440</u>	<u>109,143</u>	<u>1,868,689</u>
9,654	113,980		3,182 2,360	12,266	89,738 126,894 0 4,273
<u>9,654</u>	<u>113,980</u>	<u>-</u>	<u>5,542</u>	<u>12,266</u>	<u>220,905</u>
<u>359,786</u>	<u>551,711</u>	<u>48,234</u>	<u>6,898</u>	<u>96,877</u>	<u>1,647,784</u>
<u>359,786</u>	<u>551,711</u>	<u>48,234</u>	<u>6,898</u>	<u>96,877</u>	<u>1,647,784</u>
<u>\$ 369,440</u>	<u>\$ 665,691</u>	<u>\$ 48,234</u>	<u>\$ 12,440</u>	<u>\$ 109,143</u>	<u>\$ 1,868,689</u>

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT)--SPECIAL REVENUE FUNDS
YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

EXHIBIT D-2

	<u>Wayne- Oakland Disposal</u>	<u>Retiree Health Care</u>	<u>Community Development Block Grant</u>	<u>Park Improvement</u>
<u>REVENUE</u>				
Licenses and permits.....	\$	\$	\$	\$
Charges for services.....		910,693		330
Federal sources.....			92,332	
State sources.....				
Use of money and property.....	5,101	46,673		16,037
Other revenues.....				
TOTAL REVENUE	<u>5,101</u>	<u>957,366</u>	<u>92,332</u>	<u>16,367</u>
<u>EXPENDITURES</u>				
Current operations:				
Legislative.....		16,297		
Management and planning.....	68,518	750,232		
Public safety.....		1,867,669		
Streets, highways, & public improvements....		134,271		
Community and economic development.....		345,555	79,222	14,953
General support.....		274,099		
Capital outlay.....				
TOTAL EXPENDITURES	<u>68,518</u>	<u>3,388,123</u>	<u>79,222</u>	<u>14,953</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>(63,417)</u>	<u>(2,430,757)</u>	<u>13,110</u>	<u>1,414</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
General fund transfer.....				150,000
Transfers In.....				
Transfers Out.....				
TOTAL OTHER FINANCING SOURCES (USES)	<u>0</u>	<u>0</u>	<u>0</u>	<u>150,000</u>
REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(63,417)</u>	<u>(2,430,757)</u>	<u>13,110</u>	<u>151,414</u>
Fund balance (deficit) at beginning of year.....	<u>138,132</u>	<u>2,550,127</u>	<u>(45,007)</u>	<u>270,676</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ 74,715</u>	<u>\$ 119,370</u>	<u>\$ (31,897)</u>	<u>\$ 422,090</u>

<u>Sidewalk Improvement</u>	<u>Tree Ordinance</u>	<u>Drug Forfeiture</u>	<u>Police Grants and Donations</u>	<u>Metro Act</u>	<u>Total</u>
\$	\$	\$	\$	\$	\$
	101,250				-
			98,780		1,012,273
		9,836		55,538	191,112
7,975	32,406			1,291	65,374
127,000	449		4,264		109,483
					131,713
134,975	134,105	9,836	103,044	56,829	1,509,955
					16,297
					818,750
		4,141	101,962		1,973,772
35,758	49,109			35,040	254,178
					439,730
					274,099
13,778					13,778
49,536	49,109	4,141	101,962	35,040	3,790,604
85,439	84,996	5,695	1,082	21,789	(2,280,649)
25,000					175,000
25,000	0	0	0	0	175,000
110,439	84,996	5,695	1,082	21,789	(2,105,649)
249,347	466,715	42,539	5,816	75,088	3,753,433
\$ 359,786	\$ 551,711	\$ 48,234	\$ 6,898	\$ 96,877	\$ 1,647,784

COMBINING
FINANCIAL STATEMENTS

CAPITAL PROJECT FUNDS

**COMBINING BALANCE SHEET -- CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit E-1

	<u>Village Center Parking</u>	<u>Storm Water Management</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and investments (Note C).....	\$ 241,065	\$	\$ 241,065
Accounts Receivable.....	76,000		76,000
Due from other governmental units.....		207,899	207,899
TOTAL ASSETS	317,065	207,899	524,964
<u>LIABILITIES AND FUND EQUITY (DEFICIT)</u>			
<u>LIABILITIES</u>			
Accounts payable.....		47,951	47,951
Wages payable.....		1,148	1,148
Retainages payable.....			0
Due to other funds.....		12,750	12,750
Deferred revenue.....	76,000	207,899	283,899
TOTAL LIABILITIES	76,000	269,748	345,748
<u>FUND BALANCE (DEFICIT)</u>			
Unreserved:			
Undesignated.....	241,065	(61,849)	179,216
TOTAL FUND BALANCES (DEFICIT)	241,065	(61,849)	179,216
TOTAL LIABILITIES AND FUND BALANCES	\$ 317,065	\$ 207,899	\$ 524,964

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) -- CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit E-2

	<u>Village Center Parking</u>	<u>Storm Water Management</u>	<u>Total</u>
<u>REVENUE</u>			
Use of money and property.....	\$ 4,615	\$ 1,908	\$ 6,523
Other	<u>96,000</u>		<u>96,000</u>
TOTAL REVENUE	<u>100,615</u>	<u>1,908</u>	<u>102,523</u>
<u>EXPENDITURES</u>			
Streets, highways & public improvements.....		151,120	151,120
Capital outlay.....		0	0
Debt service:			
Principal payments.....		50,000	50,000
Interest payments.....		<u>37,250</u>	<u>37,250</u>
TOTAL EXPENDITURES	<u>0</u>	<u>238,370</u>	<u>238,370</u>
REVENUE OVER (UNDER) EXPENDITURES	100,615	(236,462)	(135,847)
<u>OTHER FINANCING SOURCES</u>			
General fund transfers.....		<u>275,000</u>	<u>275,000</u>
TOTAL OTHER FINANCING SOURCES	<u>0</u>	<u>275,000</u>	<u>275,000</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	100,615	38,538	139,153
Fund balances (Deficit) at beginning of year.....	<u>140,450</u>	<u>(100,387)</u>	<u>40,063</u>
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 241,065</u>	<u>\$ (61,849)</u>	<u>\$ 179,216</u>

COMBINING
FINANCIAL STATEMENTS

INTERNAL SERVICE FUNDS

INTERNAL SERVICE FUNDS

FUND DESCRIPTIONS

Fleet Management-This fund is used to account for the operations of all City vehicles excluding Fire Department Apparatus.

Accrued Sick and Vacation-This fund is used to account for the liability of accrued sick, vacation, and compensatory time.

**STATEMENT OF NET ASSETS -- INTERNAL SERVICE FUNDS
DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit F-1

	<u>Fleet Management</u>	<u>Accrued Sick & Vacation</u>	<u>Total</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and investments (Note C).....	\$ 1,896,026		\$ 1,896,026
Receivables:			
Due from other funds.....		\$ 1,467,435	1,467,435
TOTAL CURRENT ASSETS	1,896,026	1,467,435	3,363,461
<u>LAND, BUILDINGS AND EQUIPMENT</u>			
Machinery & equipment.....	919,294		919,294
Vehicles.....	3,669,080		3,669,080
TOTAL CAPITAL ASSETS	4,588,374	0	4,588,374
Less: Allowance for depreciation.....	3,410,639		3,410,639
TOTAL CAPITAL ASSETS NET OF DEPRECIATION	1,177,735	0	1,177,735
TOTAL ASSETS	3,073,761	1,467,435	4,541,196
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts payable.....	\$ 46,941		\$ 46,941
Due to other funds.....	35,850		35,850
Accrued payroll and other liabilities.....	5,013	1,467,435	1,472,448
TOTAL LIABILITIES	87,804	1,467,435	1,555,239
<u>NET ASSETS</u>			
Invested in capital assets.....	1,177,735		1,177,735
Undesignated.....	1,808,222		1,808,222
TOTAL NET ASSETS	\$ 2,985,957	\$ 0	\$ 2,985,957

**COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN
FUND NET ASSETS -- INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit F-2

	<u>Fleet Management</u>	<u>Accrued Sick & Vacation</u>	<u>Total</u>
<u>OPERATING REVENUE</u>			
Equipment rental charges.....	\$ 1,221,136		\$ 1,221,136
Vehicle rental fees.....	671,070		671,070
Other operating income.....		\$ 94,260	94,260
TOTAL OPERATING REVENUE	1,892,206	94,260	1,986,466
<u>OPERATING EXPENSES</u>			
Salaries and wages.....	211,746	89,321	301,067
Fringe benefits.....	156,804	4,939	161,743
Supplies.....	407,942		407,942
Contracted services.....	85,068		85,068
Other operating expenses.....	324,414		324,414
Depreciation and amortization.....	604,120		604,120
TOTAL OPERATING EXPENSES	1,790,094	94,260	1,884,354
TOTAL OPERATING INCOME	102,112	0	102,112
<u>NONOPERATING REVENUE</u>			
Interest earned.....	86,866		86,866
Other income.....	163,056		163,056
TOTAL NONOPERATING REVENUE	249,922	0	249,922
CHANGE IN NET ASSETS	352,034	0	352,034
Net assets-beginning of year.....	2,633,923	0	2,633,923
NET ASSETS AT END OF YEAR	\$ 2,985,957	\$ 0	\$ 2,985,957

**COMBINING STATEMENT OF CASH FLOWS-
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CITY OF AUBURN HILLS

Exhibit F-3

	<u>Fleet Management</u>	<u>Accrued Sick & Vacation</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Cash received from customers.....	\$ 1,892,206		\$ 1,892,206
Cash payments for goods and services.....	(570,769)		(570,769)
Cash payments to employees.....	(364,965)		(364,965)
Other operating expenses.....	(324,414)		(324,414)
NET CASH PROVIDED BY OPERATING ACTIVITIES	632,058	\$ 0	632,058
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Operating transfers in.....	0		0
Other nonoperating receipts.....	163,056		163,056
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	163,056	0	163,056
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Purchase of capital assets.....	(688,443)		(688,443)
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(688,443)	0	(688,443)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Interest received on investments.....	86,866		86,866
NET CASH PROVIDED BY INVESTING ACTIVITIES	86,866	0	86,866
Net Increase in cash and cash equivalents.....	193,537		193,537
Cash and cash equivalents-Beginning of year.....	1,702,489	0	1,702,489
Cash and cash equivalents-end of year.....	<u>\$ 1,896,026</u>	<u>\$ 0</u>	<u>\$ 1,896,026</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>			
Operating income	\$ 102,112	\$ 0	\$ 102,112
<u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>			
Depreciation and Amortization Expense	604,120		604,120
Decrease (increase) in due from other funds		(94,260)	(94,260)
Increase (decrease) in accounts payable	(77,759)		(77,759)
Increase (decrease) in due to other funds	4,888		4,888
Increase (decrease) in accrued payroll and other liabilities	(1,303)	94,260	92,957
Total Adjustments	529,946	0	529,946
Net cash provided by operating activities	<u>\$ 632,058</u>	<u>\$ 0</u>	<u>\$ 632,058</u>



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May 29, 2007

Honorable Mayor and Members
of the City Council
City of Auburn Hills
1827 North Squirrel Road
Auburn Hills, MI 48326

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Auburn Hills for the year ended December 31, 2006. As a result of our audit, and in addition to our audit report, we offer the following comments and suggestions for your consideration.

State-shared Revenue

As discussed in our previous communications, the future of the State's revenue-sharing program may be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget, which continue to be significant. The magnitude of the State's deficit has become even more pronounced after the State's January 2007 revenue estimating conference. According to economists, Michigan's budget is \$3 billion short of the revenue needed to cover basic services this year and next (state fiscal years 2006/2007 and 2007/2008). The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action would be required for appropriations to continue into 2008 and beyond. In 2006, the City's statutory revenue was approximately \$238,000 (of the total \$1,580,000 distribution received).
- **Changing Michigan Business Tax Structure** - The Michigan Single Business Tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. The governor's fiscal year 2007/2008 budget recommends replacing a majority of the repealed single business tax revenue with a new Michigan Business Tax. The governor's budget also includes several other tax increases and changes. Much debate will occur prior to the enactment of a final tax structure plan.

While the debate has begun, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing.

Internal Controls

The American Institute of Certified Public Accountants Audit Standards Board recently issued nine new Statements on Auditing Standards (SAS). The new auditing standards increase the level of documentation that is required to be obtained during our audits and modify the way we conduct our work. The new standards take effect over the next two years.

We are now required to comply with the Statement on Auditing Standards 112, *Communication of Internal Control Related Matters Noted in an Audit*. This standard lowers the threshold that is used to determine if a control deficiency must be reported to the Council. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standard (SAS 112) requires us to inform you about any matters noted in your accounting procedures or internal controls that the new auditing standards define as a "significant deficiency." The new threshold for a "significant deficiency" is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency.

In planning and performing our audit of the financial statements of the City of Auburn Hills, as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in the internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We did note one item we consider to be a significant deficiency in the internal control as follows:

- It was noted that property tax revenue within certain component unit funds was not properly stated in the general ledger at year end. The revenue within the Brownfield Authority and the Tax Increment Finance Authorities was not correctly stated due to a portion of the 2006 summer tax collections not yet being distributed from the Tax Collection Fund at December 31, 2006. The City's policy is to retain a portion of the collections in anticipation of Michigan Tax Tribunal or State Tax Commission refunds. This resulted in tax dollars being reported as deferred revenue versus being reported as revenue. As a result, adjusting journal entries were necessary to properly report the revenue.

Internal Controls (Continued)

We did note additional items that would not be considered significant deficiencies but that should be given further consideration:

- To further enhance the controls over bank reconciliations, we suggest that as final bank reconciliations are completed by the Treasurer's office, copies should be given to the Finance Department. In addition, it is our understanding that the Treasurer's Office and Finance Department are currently working together to develop new procedures to strengthen controls over the disbursements from the Trust and Agency accounts. The new procedures should result in the Finance Department having more detailed information regarding transactions in the account.

Water and Sewer Fund

For the year ended December 31, 2006, the City's Water and Sewer Funds experienced a significant increase to their operational loss which was mainly due to the enhanced accuracy of the meters used for the City's purchase of water and the accounting change the City made related to the lives of certain fixed assets. The enhancement to the system served to decrease the unusual water gain that the City was historically experiencing and led to the City's costs increasing significantly in the current year. In addition, overall loss within these two funds increased further as compared to the prior year due to the capital and lateral charges being significantly less. On a combined basis, these two funds experienced a decrease in net assets of approximately \$2.3 million more than the prior year loss. City management and the City Council kept this new situation in mind when evaluating the adjustment needed to the rate structure in order to fund operations and maintenance, capital, and debt-related costs, as well as maintaining an appropriate level of working capital.

Property Tax Matters and Legislation

As you are aware, Proposal A limits the growth in taxable value on existing property to the lesser of inflation or 5 percent and the Headlee Amendment to the Michigan Constitution further limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. Based on this formula, it was noted that the City's millage rate has been significantly reduced by Headlee. The charter maximum millage rates for Operations, Police and Fire are 3.0, 8.5, and 2.5, respectively, as compared to the Headlee limited millages of 2.1125, 5.9857, and 1.7604, respectively. This factor should continue to be considered when the City is performing long-term financial planning.

Property Tax Matters and Legislation (Continued)

In addition, a series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent, until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop-up" amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- House Bill 4440 establishes an 18-month moratorium on the "pop-up" or "uncapping" of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The "pop-up" or "uncapping" of taxable value would be delayed until the property was sold or transferred in later years.
- House Bill 4441 increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- House Bill 4442 would change the General Property Tax Act to exempt the "pop-up" or "uncapped" value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as "additions" to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House.

Post-Employment Benefits

The City has been proactive in beginning to fund its future expected post-employment benefits. The City has been contributing to the fund since 1997 and the City has been getting an actuarial valuation on the accrued liability since 1999. As of December 31, 2008, the Governmental Accounting Standards Board Statement No. 45 will require this accrued liability to be disclosed on the government-wide financial statement and the actuarially determined recommended annual contribution will be disclosed within the footnotes of the financial statements.

Municipal Finance Act Revisions– Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end December 31, 2006, and is good for one year thereafter.

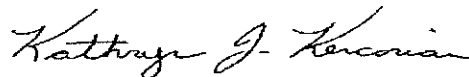
This communication is intended solely for the information and use of management, council members, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Beth A. Bialy



Kathryn J. Kercorian